

**EXPLORING THE VARIATION OF ECONOMIC
PERFORMANCE WITHIN DEVELOPING
DEMOCRACIES: AN INSTITUTIONAL ANALYSIS
OF EAST AND SOUTH-EAST ASIA**

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Abstract

This thesis explores the impact of democratic institutions amongst the Asian developing countries. There has been debate about the successful economic rise of these seven countries; however, questions remain over the differing levels of economic performance. Institutional literature has paid scant attention to the role of democracy, and how this has influenced economic development throughout Asia. This thesis explores the relationships between four democratic institutions – cabinets, party-systems, electoral systems and bicameralism – and economic performance across six developing democracies, in addition to Japan. Using current democratic institutional literature derived from OECD countries, this thesis expands the scope to include new countries. The analysis employs both statistical methods and case studies to assess the relationships between four democratic institutions and seven socio-economic indicators between 1986 and 2005. The linear regressions provided evidence that coalition cabinets are correlated with lower levels of inflation and unemployment, but large multi-party legislatures are not. This thesis also found correlations between strong second legislative chambers and higher FDI, lower tariffs and higher income inequality. Although this is an exploratory thesis, I suggest that democratic institutional analysis within Asia does warrant further examination; an assessment of the specific institutions may provide us with clearer notions regarding economic development.

Chapter One - Introduction

“...the large difference in per capita income across countries cannot be explained by differences in access to the world’s stock of productive knowledge or to its capital markets, by difference in the ration of population to land or natural resources, or by difference in the quality of marketable human capital or personal culture ... the great differences in the wealth of nations are mainly due to differences in the quality of their institutions and economic policies.”

Mancur Olson *“Big Bills Left on the Sidewalk: Why Some Nations are Rich, and Others Poor”* (1996: 176)

The economic story of Asian states along the Pacific Rim is an intriguing tale of states transforming themselves into financial and industrial giants. Through initial success, apparent failure during the Asian economic crisis of 1998 and now back to steady positive growth, no other region has experienced systematic economic development like East Asia. However, their recent economic development has not occurred in a vacuum: most of the East Asian “tiger” economies have simultaneously transformed into democracies¹. But to what extent has democracy influenced the disparate rates of growth? Current political and economic scholarly work has focused on the presumption that economic success has arisen in those states due to adoption of fundamental neoclassical economic tenets by their authoritarian political regimes; that is, authoritarian regimes

¹ Many of these countries, with the exception of Japan, are classic examples of Huntington’s (1991) Third Wave of Democratisation .

successfully *imposed* conditions which permitted economic growth. However economic success has also arisen in nascent democracies (See World Bank 1993). I contend that Olson's (1996) statement regarding the presence of institutions is crucial to the understanding of consequent economic performances within these developing Asian democracies. Without an analysis of the interrelationship between democratic institutions and economic growth, the East Asian economic success cannot be understood.

Democracy, simply put, consists of freely-contested elections, where those elections are used to select the government. It is an open competition between diverse interests, organizations and opinions, with periodic winners and losers (Przeworski 1991: 10). Governed by rules and regulations, these interests pursue courses that reflect the will of the majority propagating a perpetual system of continual conflicts "in which outcomes depend on what participants do but no single force controls what occurs" (Przeworski 1991: 12). Within the political realm it is seldom anticipated to what extent divergent stances can be resolved or mediated, nor is it unavoidable. As such, Przeworski recognises that democracy acknowledges uncertainty, insofar as participants can expect certain outcomes but not *particular* outcomes. For this reason democracy is good at protecting all interests, because there remains the possibility that at a future election those interests may be in the majority and simultaneously be respected (Przeworski 1991: 12). Indeed this open competition coupled with adequate incentive permits political stability to facilitate economic growth.

“... a stable democracy requires that governments be strong enough to govern effectively but weak enough not to be able to govern against important interests.”
(Przeworski 1991: 37)

Although there is no consensus about a causal link between liberal democracy and economic development, there is however evidence to suggest that is high correlation between the two phenomena.

Much current research concerns comparative studies done with developed industrialised democracies and with post-Communist countries. There is also a literature that examines the role of democracy within Latin America; however, there is relatively little that is concerned with the emergence of a variety of different democracies in Asia, and in particular their effects on their respective economies (See Haggard and Kaufman 1995; Blondel 1999). What research that does exist about East Asia looks broadly at the at the holistic effect on democracy and economic development, particularly in regards to other authoritarian governments (Rodrik 2000)². Whilst informative, I contend that it does little explain the variation of performances between rather similar countries that are democratic.

² MacIntyre (2001) however, does examine the effect of democratic institutions in four Southeast Asian countries during the 1998 Financial Crisis.

I argue that political choices *do* affect socio-economic outcomes. This argument follows closely to that outlined by Heo and Tan (2003) in their evaluation of the differing responses of South Korea and Taiwan to the Asian Financial Crisis, whom in turn focus on Haggard's (1990) conclusions about the role of political institutions in economic outcomes (See Gourevitch 1986). Essentially this paper proposed that development and the state's response to sharp economic downturns are a result of their respective political institutions. I propose to extend the premise to specifically democratic procedural institutions across seven similar countries; Indonesia, Japan, Malaysia, Philippines, South Korea, Taiwan and Thailand.

This thesis will attempt to explain which types of democracy are associated with economic performances within South-East and East Asia. The democratic traditions and subsequent economic development of the countries are focussed on, as are differences in their various types of institutions. Such an approach has useful explanatory power but also permits cross-national studies of variations of political and economic performance (Remmer 1997; Roland 2004). Due to the limited amount of current literature pertaining to this specific analysis I am undertaking an exploratory approach to this research. Before making detailed analyses into the economic implications of a particular institution, it is important to examine whether there are relationships that warrant further evaluation. This thesis attempts to broadly evaluate the validity of further research by examining the direct or indirect impact of these institutions within each country using a

range of common and new socio-economic indicators. This thesis simplifies several apparently mutually exclusive sets of variables, democratic political institutions and socio-economic indicators; whilst this may reduce validity it necessarily enhances the feasibility of conducting any research pertaining to democracy³. The general aim is to explore, albeit crudely, potential relationships between nascent democratic institutions and socio-economic performance indicators.

What is an Institution?

An “institution” in political science terms is much broader than the common definition; while most people would consider formal organisations or bodies such as a parliament, a university, a bank or even a large company to be an “institution”, political scientists define institutions as imposing constraints on behaviour. North (1990: 3) defines an “institution” as “constraining the behaviour of individuals by the ‘rules of the game’”⁴. Dunning and Pop-Eleches (2004: 6) expand it further “sets of formal, rule-based constraints on the behaviour (sic) of individual and collective actors”⁵. Weaver and Rockman (1993: 118-9) espouse a similar idea:

³ Research into the effects of democracy in regards to economics often turns into discussion of definitions of democracy, although these are pertinent discussions it avoids the important research at hand.

⁴ This differs from organisations which are people that work within the institutions or ‘rules of the game’.

⁵ However, there is also an alternative view that contends that institutions have a wider definition. Cultural values, beliefs and informal rules and customs are considered by theorists as being intuitive towards the functioning of an institution. However, there is little to suggest how to operationalise these alternative fields and is beyond the scope of this thesis.

“Firstly, the most common claim is that institutions determine *the capacity of government to legislate and implement policies* (originally italicised). A second claim is that institutions determine the strategies of political and economic actors by virtue of the opportunities and constraints that they provide. Third, historical institutionalists commonly assert that institutions determine *the distribution of power among political or economic actors*. And finally, we are often told that institutions matter in an even more profound sense: They determine *who the actors are and/or how the actors conceive their interests*.”

Democratic Institutions and Economic Performance

This thesis contends that democratic institutions do have an effect on countries’ economic performance. Whilst there is no conclusive evidence to suggest which specie of democratic institution causes a specific effect, there is a body of literature that affirms that democratic institutions *generally* do affect economic performance – albeit positive or negative influence (Alesina and Rodrik 1994; Helliwell 1994; Alesina, Ozler et al. 1996; Aron 2000)⁶. Further, many surmise that institutions themselves do not necessarily directly affect performance but create the settings for which development can occur. Democratic institutions may not directly create growth, but are (at the least) an important antecedent for growth. Qian and Weingast (1997) adjudged that economies require, in addition to sound economic policies, stable political commitments (See Clague, Keefer et al. 1996). In other words growth is not simply an aggregation of factor endowments, but a combination of rules, constraints, and freedoms – manifested

⁶Prezeworski and Limongi (1993) go further, suggesting that there is not direct correlation between democracy and economic performance.

in democratic institutions, economic policies and the market. Likewise, Feng (1997) promotes the notion that although no direct correlation is apparent, an indirect relationship through political stability does affect long-term economic performance. Rodrik (2000: 5) considers the role of political institutions as not necessarily directly affecting economic performance but rather establishing political stability through good governance; these are referred to as “market-supporting institutions”.

An alternative theory suggests that the aggregation of human capital, in addition to sound economic policies, are factors much more important to successful economic performance than are democratic institutions (Glaeser, Porta et al. 2004). However this research regressed institutional quality against measures of human capital –in this instance education enrolment levels –and an independent variable of economic growth. In an attempt to elicit a relationship between institutions and growth, or human capital (via education enrolment levels) and growth, this research conducted two tests and found that there was no clear relationship for institutions, but there was a significant relationship for human capital.

The Asian Experience

In the present case, however, it's clear from distinction that the Asian democracies have all enjoyed large aggregations of human capital but with

differing results (World Bank 1993). This suggests that Glaeser and Porta's methodology may not adequately explain the growth patterns in these countries. Indeed I contend that the presence of democratic institutions provides adequate incentive to foster economic development, and this is also confirmed by Persson (2004). Rodrik's (2000) analysis on the effect of democratic institutions and long-term performance suggested that there is a positive but not a robust correlation⁷. However, Rodrik's GDP data is only for the period 1970-89, and does not provide the information for the past 17 years. There is no existing literature that attempts to explain the *direct* relationships between specific institutions and socio-economic performance indicators.

The Rest of the Thesis

The purpose of this research is to determine which variety of democratic institutions is correlated with economic performance; I contend that the presence of particular types of institution affects the development, and hence performance, within nascent democracies in East Asia. Before this primary question can be answered, I examined the viability of research (derived largely from data relating to industrialised democracies) in regards to explaining developing democracies. Chapter Two examines the institutions themselves, and in particular looks at the current political-economic literature pertaining to the relationships between

⁷ Controlling for initial income, education, and regional effects, the partial correlation proves that although democracy can provide performance it is not significant. However, it must be remembered that this analysis was an attempt to regress a sample of political regimes both including, free, semi-free, and autocratic governments.

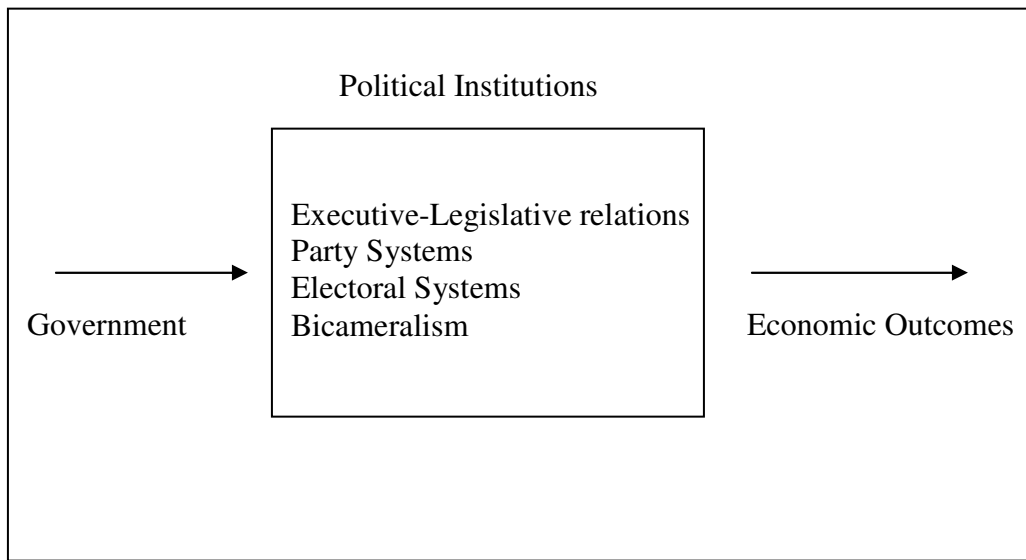
institutions and socio-economic performance. In addition, I attempt to test the hypothesised relationships by including further socio-economic variables, specifically those pertinent to Asia's economic development. Chapter Three explains the data and method for this thesis and introduces each institution and performance indicator and how they are measured; importantly, this section also details the statistical method employed in the subsequent chapter. The analysis section, Chapter Four, implements the cross-national statistical approach of the previous chapter. Essentially this is a regression exercise, looking to find correlations, or a lack thereof, between the four nominated institution types and the seven performance indicators. However, I also describe the relationships between the two groups and go into greater detail than simply assessing the significance of the relationship between the independent and dependent variables. Chapter Five concludes the analysis, reviewing the new and interesting relationships and suggests avenues for further research.

The timing of the research bears down on contemporary political issues, in particular the creation and subsequent failures and successes of a spate of new democracies. However there have been few academic analyses of these nascent Asian democracies, little work examining their democratic institutions, and thus this thesis seeks to expand the scope of existing literature in an attempt to understand institutional effects on economic growth within a nascent democracy.

Chapter Two – Democratic Institutions and their effect on Economic Performance

Growth, according to Olson (1996), is the product of a relationship between institutions and economic policies. Olson is certainly correct to suggest that these three are interrelated but what is not clear is the exact relationship between institutions, economic policy and (in this instance) economic performance. Neo-institutionalists contend that political/constitutional structures are essential to policy change and indeed specific economic outcomes, stressing the importance of viewing “the structures of constitutional democracy as major promoters or inhibitors of radical policy change” (Schmidt 1996: 175). Any major policy is constrained by the nature of the political institution in place (Haggard 1990; Heo and Tan 2003).

Figure 2. 1 Institutional effect on economic outcomes



What are these Institutions? What Effect do Democratic Institutions have?

Olson, like other contemporary institutional economists and comparative political scientists, has focused much on the relationship within ‘developed’ democracies. This research often excludes nascent democracies and analyses of their economic performance. However, I contend nascent democracies are the ideal subjects for further study of the relationships between institutions, policies, and growth. In the subsections that follow I undertake a review of the current literature – in particular Lijphart (1999) and Powell (1982) - in order to ascertain the viability of applying the existing studies to the nascent democracies in East Asia. I conclude that the literature can be safely extended beyond it’s the confines of developed nations and I employ a new sample in a simple exploratory model.

In an attempt to explain further the effect of institutions on socio-economic performance I will use an additional theoretical concept, namely, “veto-players”: which are “individual(s) or collective actor(s) whose agreement is required for a policy decision” (Tsebelis 1995: 293). This author sought to accommodate variation between all institutions irrespective of observable difference, across party systems, legislatures and executives through this single independent variable. Tsebelis used this concept as a move away from the traditional pair wise comparisons, for instance presidential versus parliamentary, as well as increasing sample size, a method that is predominant within contemporary literature for instance Lijphart (1999). In this thesis I use the veto-player method to complement the pair wise comparison.

It is the intention of this thesis to explain to what extent configurations of institutions will affect veto players and consequently, socio-economic performance. The following sections below explain further the implications of this my method and proposed model.

Democratic Institutions – Which Ones Matter⁸?

Many theorists have attempted to examine and evaluate the macroeconomic implications of institutions within a given environment. Indeed, seminal work conducted by Haggard (1990) revealed that specific government configurations do in fact have had significant effects. In addition, Rodrik (2000) has examined the importance of specific institutions to sustained economic performance. Yet little work has been done looking at the implications of institutions other than civil-political rights, property rights, legal systems, and other systemic indicators of executive constraint.

Lijphart (1999) surveyed thirty-six developed democracies in an attempt to classify, contrast and examine their similarities and differences, particularly their political characteristics. Prominent within his typology are the distinctions between the forms of democratic government within the successful countries of the Organisation for Economic Cooperation and Development [OECD]. For the sake of brevity I have chosen four institutions for this thesis; first cabinets; the composition of which gives insight as to the degree of which the government retains executive power vis-à-vis its actual legislative standing. This institution is easily applied to all forms of government, has good explanatory power and provides a sound variable even with a limited number of cases. Secondly, the

⁸ In the attempt to understand the definition of democracy I follow the lead of Hsieh (2002) who in turn followed Schumpeter (1976) and Huntington (1991) whom use “a procedural definition of democracy as a system under which candidates for the most powerful position in the government are chosen by the general public in free and fair elections.”

type of electoral system in place within the political system is an important institution that influences both the party system and executive formation. Contemporary literature places great emphasis on the variation of this institution (See Powell 1982; Crepaz 1996; Birchfield and Crepaz 1998; Lijphart 1999); many therefore consider the relationship between it and economic performance pivotal to an understanding of a country's political system. Thirdly, party systems, in particular the contrast between multiparty or two-party systems, have been traditionally taken to represent the distinction between few veto players and many veto players. Additionally, party systems like electoral systems are evaluated as a scale number and therefore provide larger number of variables for a small sample size. These three institutions best represent the variation discussed within the literature. The last institution, bicameralism, has very little existing theory dedicated to its relationship with economic performance; however there is great variation within the sample, hence it warrants examination.

What Democratic Institutions do not Matter?

A notable exclusion is the examination of executive-legislative relations, invariably involving a discussion of presidential versus parliamentary style of government (Persson and Tabellini 2003). Primarily, this institution has been excluded as a wealth of existing literature pertaining to the regime dichotomy and in particular to the question which is best suited to developing countries already exists. The second point leads directly from the first; this institution refers to only

two categories and therefore restricts the variation that can occur within a sample; something which is unhelpful when considering only a small number of cases.

A second institution referred by Lijphart but not emphasised in this thesis is the division of power, specifically the contrast between federal and unitary. In short Malaysia represents the one true federal country in this sample. Because in my sample the countries are almost exclusively unitary, this descriptor does not generate sufficient variation to warrant inclusion.

Lijphart (1999) refers to two other institutions, interest groups and central bank independence. The latter, as I suggest in Chapter Three, tend to have very little variation (insofar as they all tend to be autonomous economic bureaucracies) and I therefore list them as a similarity and not a difference. Interest groups were used by Lijphart to contrast between pluralism and corporatism, but because of the lack of strong ideological ties between social groups and parties within Asian democracies, this variable also is of little descriptive value (Haggard and Kaufman 1995; Blondel 1999).

The Four Institutions

In the following section I will discuss the four institutions used in the analysis.

Cabinets

A cabinet may be loosely described as a group of high-ranking government officials, usually representing the executive branch, which set the government's policy direction and control its legislative agenda. Cabinet members are commonly drawn from the ranks of the dominant party in the legislature but this need not always be the case (for instance, in the United States the cabinet consists of government personnel who are not members of Congress). Within all democratic systems there are differences in the make up of the cabinet; principally, whether it is made up of a coalition of parties or a single party⁹ (hereinafter referred to as "cabinet composition") (Lijphart 1999). Further, to what extent is there legislative support for this cabinet (Lijphart 1999).

Lijphart (1999) categorises cabinet structure on the levels of legislative support¹⁰.

⁹ Generally speaking there are other varied aspects within the term executive-legislative relations. Lijphart (1999) in addition to examining cabinet composition also looks specifically at the differences between presidential and parliamentary systems. Although much of the categorization occurring above can be subsumed into either of these two categories much has already be done within this field. Further, I believe that the dichotomy reduces the number of cases and variables for the statistical analyses.

¹⁰ Presumably the composition of cabinet refers to simply parliamentary systems. However, it can also be used to describe other systems of regime type, presidential and hybrid. In the former system in addition to

First, “minimal winning cabinets” are, in essence, the representatives of a party (or coalition of parties) which controls the bare minimum number of parliamentary seats needed to gain a majority in the legislature (Lijphart 1999: 90). Notwithstanding that other parties hold seats in parliament; a minimal winning cabinet is still able to control the legislature. Secondly, “minority or undersized cabinets” are essentially without the support of a parliamentary majority, but may require other parties’ votes of matters of confidence and to ensure the safe passage of government legislation (Lijphart 1999: 91)¹¹. Lastly, Lijphart classifies “oversized cabinets” as those “which contain more parties than are necessary for majority support in the legislature” (Lijphart 1999: 90).

Lijphart’s three classifications reveal a salient issue namely, the existence of veto players in cabinets and legislatures. As I discuss above, I contend that veto players are essential for an understanding of the institutional framework in nascent democracies. The general principle is that as the number of parties in a cabinet increases, so too does the number of veto players, thus reducing any major party’s scope for ideal policy implementation¹². Tsebelis (1995) suggests that these type of cabinets, such as minority and oversized, induce compromise

there being no provision for a vote of ‘no confidence’ being produced by the legislature against it and therefore not necessarily needing extended support by them, the executive can have a cabinet that is either minimal or oversized. Meaning if the chief executive includes members from another party it is considered oversized. Hybrid systems are institutions whereby there is a president-premier relationship with the latter generally responsible to the legislature. In this instance the institution is considered for general purposes parliamentary and therefore can be attributed one of three categories listed below.

¹¹ Lijphart (1999) essentially view these as indicative of a coalition style of governance, due to the reliance of other parties for successful passage of legislation.

¹² I use the phrase here to qualify the minority coalition category, whereby there may be only one party in the cabinet yet there is a need for other parties in the legislature to prop up its’ legislation timetable and supply ‘no confidence votes’. Hence, effectively, there are additional veto players for this category as opposed to the minimal winning cabinet category.

and consensus to achieve policy. Minimal winning cabinets generally only have one veto player (the legislative opposition) and thus do not need to moderate their internal decision making for the benefit of another party.

Importantly, these categories are not restricted to purely parliamentary regimes. Other government systems, particularly those that have direct election of their executives, also exhibit several of the features listed above. Non-parliamentary systems may be assessed with some legitimacy according to Lijphart's typology. Many such power systems are by definition "minimal winning cabinets", however it can still be said that some such systems still need de facto support to push through legislation even though they do not face formal votes of 'no confidence'. Non-parliamentary systems which have other veto players/parties within the "cabinet" I would categorise as "oversized cabinets" for instance the 1988 Thirteenth National Assembly of South Korea.

Cabinet type may have an effect on economic growth. In terms of economic output, Crepaz (1996) suggests that there is a significant relationship between coalition cabinets and the reduction of unemployment and inflation. Similarly, Roubini and Sachs (1989b) tested similar arrangements to Lijphart's three cabinet classifications with 15 OECD countries to demonstrate the effects on government budgetary policy. Their results concluded that coalition arrangements, in particular minority and oversized cabinets, are highly correlated with budget deficits. Hahm's (1994) country analysis of Japan's government

formation suggested that minimal winning cabinet arrangements effectively determine the state of fiscal policy for a country on a long term basis. He suggested that such cabinets encourage fiscal prudence and lower deficits. Similar institutional theory considers that increased number of veto players as directly proportional to rent-seeking behaviour a “trade-off” inherent within the more inclusive forms of cabinet arrangements such as minority and oversized cabinets (Bohrer 2001). Importantly for the social aspect of this thesis, a higher number of veto players within cabinet has been correlated with lower levels of income inequality (Birchfield and Crepaz 1998).

Birchfield and Crepaz (1998) examined the broad impact of consensus political institutions on income inequality and concluded that they exhibit a strong correlation with higher levels of income redistribution policies in a given country¹³. In general terms, their discussion focuses on the incorporation of Tsebelis’ (1995) “veto players” concept into their own unique framework as a means of evaluating the extent to which multi-party cabinets, and other similar institutions, affected income inequality. They suggested a separation of this method into two divisions, collective and competitive; the former, “collective veto players...emerge from institutions where the different political actors operate in the same body and whose members interact with each other on a face to face basis” (Birchfield and Crepaz 1998: 182). This institution engenders “collective agency and shared responsibility” and as a consequence it becomes highly likely that compromise

¹³ In addition they are also studied multi-party legislatures and proportional electoral systems.

and consensus are the means to a modified decision-making process based on several different interests (Birchfield and Crepaz 1998: 182) (See Also Schmidt 1996). A noted example of collective veto players are in multi-party cabinets or multiparty legislatures; both of which are prominent institutions in this thesis. The second subdivision, competitive veto-players are present within institutions whereby each member has equal veto powers, this is more prominent within the bicameral institution detailed below. I have adopted Birchfield and Crepaz's unique manifestation of Tsebelis' veto players in order to provide rationales for the likelihood of specific varieties of consensus institutions affecting socio-economic indicators, specifically, cabinet composition, party systems and electoral systems.

In summary, more inclusive forms of cabinet arrangements are likely to be correlated with lower rates of inflation and unemployment. Further, it is suggested that the increased number of veto players within the executive can lower the levels of income inequality. Consequently, the general literature has hypothesised that the redistributive effects or rent seeking behaviour, of such forms of government are associated with lower levels of fiscal performance over a longer time frame.

*Party System*¹⁴

Another phenomenon that is central to the political-economy literature is the structure of the party system. Various configurations of this institution are considered important factors in socio-economic outcomes (Weaver and Rockman 1993; Haggard and Kaufman 1995; MacIntyre 2001; Zhang 2003)¹⁵. For this thesis I have chosen to look solely at the effective number of parties in the legislature¹⁶. This variable is closely related to other concepts such as cabinet composition, and veto players, which I also employ. One complaint about assessing party systems is that they are fluid and always changing but Powell (1982), Lipset and Rokkan (1967) all agree that in fact parties “are not easily dislodged by changing conditions, or even new voting generations” (Powell 1982: 75). Indeed, as it will be shown later, party systems are a strong influence on the political, social and economic outcomes of all Asian countries.

Early writing on the effective number of parties gives an anachronistic view of the multiparty system. Lowell (1896) presumes that only the two-party pluralist system –in this instance, the British Parliament –is the only justifiable method of governing the state. It values the idea of a “defractionalised, two-party, centrist party system that will aggregate citizens’ resources behind governmental

¹⁴ Inherent in the make-up of party systems are two factors, polarization and fragmentation. The latter refers to the effective number parties within the legislature. Polarisation however is the ideological distance between parties within the legislature. However in this instance in Asian economies ideological competition between parties is a non-existent issues, hence the emphasis only of party fragmentation (Blondel 1999; Zhang 2003).

¹⁵ This is pertinent to other institutions mentioned in the thesis.

¹⁶ I make reference to another aspect of party systems, party ideology, in Chapter Three.

majorities responsive to citizen pressures” (Powell 1982: 74). Termed “aggregative party systems”, it permits generally only one winner in each electoral cycle (Powell 1982: 76).

Many established industrialised European democracies have long used multiparty legislatures (Powell 1982; Lijphart 1999). However, there are a number of issues relevant for nascent democracies, one of which is the increased difficulty in forming durable coalition governments (Haggard and Kaufman 1995). Similarly, excessive party fragmentation within such countries’ weakly institutionalised settings, “characterized by unstable voter loyalties and large swings in party support from election to election”, can affect the coordination of sustained economic policy (Haggard and Kaufman 1995: 167).

Many authors suggest that multipartism adversely affects only parliamentary democracies. However presidential systems are equally affected by high numbers of parties within the legislature. Mainwaring (1993) suggests that executives can become powerless in pursuit of their policy goals due to a large number of veto players outside cabinet. Further, the rigidity of elections in these systems motivates smaller parties to cooperate less with larger governing parties, prompting the increased possibility of “legislative blackmail” (Haggard and Kaufman 1995: 170)¹⁷.

¹⁷ Terra (2002: 280) surmises that “differences in economic performance among cases appears to be linked much to the number of parties as to whether a system is presidential or parliamentary.”

It can be seen that differences in economic performance between countries is perhaps less to do with whether the party system operates within a presidential or parliamentary regime, but rather is linked to the effective number of parties (Terra 2002)¹⁸. Birchfield and Crepaz (1998) concluded that indeed there was a significant correlation between higher number of effective parties and lower levels of income inequality. Similarly a high number of parties also may affect rates of inflation and unemployment (Tsebelis 1995; Crepaz 1996). Further, Terra (2002: 281) suggests that irrespective of government type, presidential or parliamentary, all instances of high growth and low inflation occurred under “two-party or dominant-party systems” .

In conclusion, the contrast between multi-party and two-party systems is fairly distinctive. Theorists who have favoured the higher number of collective veto-players emphasise the virtuous benefits of the relationship between a large number of veto players in the executive and lower levels of income inequality, lower rates of inflation and unemployment. Conversely, all instances within the sample of high growth and low inflation have arisen in dominant-party systems.

¹⁸ Terra (2002) cites Haggard and Kaufman (1995).

The Cameral Structure of Democracies

Bicameralism is simply the division of the legislature into two chambers, commonly an upper and lower house. It is not a structure limited to federal countries, although it is strongly associated with such countries, but there are examples within unitary parliamentary systems, notably Great Britain. One of the concomitants of bicameralism is an increased number of veto players in the decision making process. However, these veto players differ in part to the collective veto players addressed above; strong bicameralism is associated with “competitive veto players”, whereby politicians operate “through separate institutions with mutual veto powers” (Birchfield and Crepaz 1998: 182). Birchfield and Crepaz (1998) go on to add that because of this strong tendency to immobilise policy making and generally restrain government, much decision making in bicameral legislatures follows a formalised process as opposed to the collective veto player’s tendency to compromise over the direction of policy. Tullock (1959) reaches a similar conclusion and suggests that the addition of an additional chamber mitigates the damaging force of majority rule, thereby protecting the interests of the minority (Hamilton, Jay et al. 1961). Further, the presence of a second chamber can also reduce the potential power of the leader or “agenda setter” (See also Levmore 1992; Tsebelis and Money 1997: 36). A common by-product of this arrangement is the lower likelihood of a policy change that differs too much from the status quo¹⁹.

¹⁹ This is further explained in Chapter Three.

In terms of the effect of this institution on socio-economic factors, Hahm (1994) suggests bicameralism is important for the determination of 'fiscal prudence'.

Similarly Bradbury and Cain (2002) conclude that bicameralism is significantly correlated with fiscal policy; a weak or centralised legislature is likely to affect an increase of redistributive policies; this point is also found by Crepaz and Birchfield (1998) in their study on the impact of bicameralism with income inequality. Tsebelis and Chang (2004) conclude that this bicameral legislatures are largely successful in controlling the rate of inflation.

Overall, the incidence of a strong second chamber is associated with long term fiscal prudence; indeed, there is a significant correlation between bicameralism and low levels of inflation. However, it suggested that weak bicameralism or unicameralism is associated with rent-seeking behaviour and therefore may be related to increase in redistributive policies and lower levels of income inequality²⁰.

²⁰ Both the terms 'strong' and 'weak' are drawn from Lijphart's (1999) categorisation of cameral structures. Chapter Three explains in detail the scale used to classify various strengths, but in short the definitions used here refer to both the strength of the second chamber, and to its method of election specifically if it over represents minorities or not, for example the United States of America's Senate. This latter country is considered 'strong' within the index, whereas the United Kingdom's House of Lords would be deemed 'weak', due its second chamber having no substantial veto power or democratic legitimacy.

Electoral System

The electoral system has critical implications for the design of the greater institutional system. Importantly it controls the number of veto players entering into the legislature, in addition to also indirectly affecting the composition of cabinet. Yet this institution still has direct consequences for socio-economic outcomes as discussed below.

Duverger's Law suggests that any given type of political system in a country may be derived from the design of the electoral system (Duverger 1964). Two models predominate; firstly the plurality model and its dominant two-party system and secondly, the proportional representation system and its multiparty system.

In regards to economic performance there is little consensus as to the effects of this institution. Lijphart (1999) argues that there are significant correlations between proportional forms of this representation and lower rates of inflation. Crepaz (1996) further postulates that electoral systems affect better quality of life, lower levels of income inequality, in addition to lower rates of unemployment and inflation. Persson and Tabellini (2004) emphasise the relationship between proportional electoral systems and rent-seeking behaviour as opposed to a pluralist model whereby the minority is less likely to be left out of government expenditure (Persson, Roland et al. 2003).

McIntyre (2001) reviewed the 1998 financial crisis and determined that within the four developmental countries of South-East Asia those that employed proportional forms of electoral system ran into immediate difficulties²¹. These difficulties were not principally derived from the economic crises but in part sprung from inflexibility due the large number of collective and competitive veto players. Bohrer similarly concludes that specific forms of these political institutions are more likely to suffer from ineffectiveness and more likely to endure crises (Bohrer 2001: 18) .

In review, it is hard to definitely conclude to what extent proportional forms of electoral systems impact the performance of socio-economic variables. In one instance this type of institution is correlated with a higher quality of life and lower levels of income inequality; however, in direct contrast, some authors evaluate this variety of institution as ineffectual and more likely to stall economic development. From this last point it may be inferred that a plurality system is conducive to stability and unlikely to widely distort the market.

How does the General Literature Explain Economic Performance in Emerging Asian countries?

The past two decades has seen the rapid industrialisation and growth of Asian economies. In general the academic response has been to characterise this feat as the successful implementation of economic policies, initially by prior

²¹ Incidentally these four countries, Indonesia, Malaysia, Philippines and Thailand are also part of my sample populations.

benevolent authoritarian governments and subsequently by similar pro-business based institutions. Whilst this may hold true for some part of economic performance many of these countries have had marked periods of rapid democratisation. Further, in closer inspections it is clear that several countries have had markedly superior economic performance to others for instance Taiwan and South Korea. To what extent does the current literature explain such a variation?

The general democratic institutional literature has predominantly examined established industrialised democracies. Comparatively there is very little work conducted in regards to nascent democratic institutions of emerging Asian countries' economies. This thesis therefore contemplates to what extent democratic institutions explain economic performance in this region.

Neo-institutional literature within an Asian setting has focused primarily on the role of the state as a propagator of economic development. Haggard's (1990) work examined institutional variation across rapidly industrialising countries, concluding that the political structures in place are important to sustained economic development. Similarly, Heo and Tan (2003) expanded on this theme, examining the differences in economic outcomes, between two supposedly similar political regimes of Taiwan and South Korea, and their responses to the 1997 Asian financial crisis (See also MacIntyre 2001). However, there is only a very small quantity of literature on the role of democratisation and its effects on

socioeconomic outcomes; specifically which aspects and type of government are conducive to sustained economic development.

This thesis attempts to expand on the theme by the authors mentioned above; however, I posit that democratic institutional differences are able to explain some variation of socio-economic performance within Asian countries. Further, these countries make for an interesting case study for various reasons. First, the rapid economic rise of these countries is traditionally attributed to the successful implementation of economic policies (See World Bank 1993). Until recently democracy has been commonly viewed as somehow intrinsically conflicting with Asian culture (See Koh 1993; Inoguchi 1995). Secondly, institutional change in this area is faster compared to other developing democracies and established democracies. Lastly, many of these countries have similar political histories, with common economic backgrounds, democratization periods and mutual economic policies (Booth 1999).

I contend that the variation of socio-economic performances within this sample is in part due to differences in democratic institutions. Although a large portion of current institutional literature is concerned with developed industrialised democracies it also provides a platform for further examination. It may be the case that these hypotheses (developed in an industrialised context) do not have great explanatory power for emerging Asian countries. Yet there is a strong possibility that there may still be relevance given that many East Asian regimes

derived their institutions from Western developed democracies (for instance the Philippines and the United States of America). The occurrence of significant relationships confirming these hypotheses may shed light on the effect of institutions within this new research. Indeed, one would surmise that many of these Asian countries experience with democracy mirror that of Greece and Spain, both former authoritarian states with comparatively recent democratisation periods.

Extending Current Institutional Literature to Account for Economic Performance with Asian Democracies

It may be that institutional literature in its present form is ineffective in examining potential relations. Further, the situational differences between developing Asian democracies and developed industrialised democracies are large enough to warrant new exploration. To accommodate the current literature's hypotheses I will add some other economic indicators to establish whether new relationships can be explored. Specifically, foreign direct investment (FDI) is an issue of contention for many of the sample countries. The relatively economically successful countries such as South Korea, Taiwan and Japan, have used very little foreign capital to spur investment and FDI is therefore seen by other new democracies as a means for sustainable economic development (Booth 1999). However there is noticeable difference in levels of FDI between the samples; I contend that some of the variation may in part be due to the arrangement of the

democratic institutions present in a country. Other indicators, including GDP per capita and Openness Index, are two commonly used indicators I have also included in this thesis²².

The addition of new indicators however has potential impact for the political institutions outside the hypothesised outcomes mentioned in the current literature. Further none of the projections listed above takes into account the effect of democracy on GDP per capita, FDI or Openness. Indeed, I contend that the effect of institutions can explain further than simply the rates of inflation and unemployment.

²² This index is used to indicate to what extent countries place restrictions on the influx of imports into their national markets. Essentially, a lower index score reflects a protectionist policy for instance Japan's (1990-92) score has been 14.53 ,compared with Malaysia's (1990-94) 174.13; Chapter Three explains further how the index is calculated (Penn World Table 2004b).

Chapter Three – Data and Method

This thesis is an exploratory examination of nascent democratic institutions within a small sample of East and South-East Asian countries. It seeks to explore empirical patterns and causal inferences between institutions and socio-economic performance.

Chapter Two reviewed the literature about institutions, their recorded effects on socio-economic indicators and provided a series of hypotheses. These hypotheses reflect the general relationships and patterns established between the four selected democratic institutions: cabinet composition, party systems, bicameralism and electoral systems. The central question is whether the established relationships hold for nascent democracies as they do for established democracies; further, as I discussed prior, do these new indicators help shed light on other potential effects of these institutions²³?

This chapter is divided into two sections; firstly *Data*, an introduction to the countries examined and how the hypotheses are operationalised. Secondly, a review of the *Method*, specifically the comparative method used for this thesis - its strengths and weaknesses

²³ Hypothesis-testing is the purview of Chapter Four Analysis; this chapter is concerned with the data and method for this research.

Why these Countries?

Recent examinations of the effects of nascent democratic institutions have largely focussed on post-communist societies (See Przeworski 1991). Comparatively little research has been conducted on the democratic institutions present within East and South-East Asia. Indeed, as was mentioned in Chapter two the case for examining these countries is interesting due to very similar political and economic histories (Booth 1999). Hence, a comparison of the original institutions with current structures may produce significant variation and enable the extraction of certain predictions. I suggest that such an analysis can illustrate the widely disparate socio-economic outcomes within the sample, therefore making for an interesting evaluation of the respective democratic institutions and the effects of these institutions.

Due to the small number of new democracies within East and South-East Asia it is important to find a comparative method that accommodates the lack of cases but retains validity²⁴. The most-similar-system (MSS) design provides a suitable framework to examine the effect of institutions vis-à-vis social and economic variables²⁵. The framework uses comparisons between very similar countries to allow examination of their differences. Variation amongst the sample, specifically

²⁴ A common downside to analyses using a small number of cases compared to the number of variables is the lack of systematic control throughout. Discussion about this problem is described at the end of this chapter.

²⁵ A detailed description of this system is discussed later within the chapter

areas of interest, allow for the exploration of hypotheses about the relationships between the independent variables and their dependent variables.

The seven countries have been, and to an extent still are, examples of tiger economies²⁶. Similar in economic perspectives, each country remains export-orientated whilst many have had benevolent authoritarian governments. The combination of these two characteristics has created a path of similar economic and political development. Booth (1999) states that all the major South-East countries have followed the developmental path of Taiwan and South Korea²⁷. Therefore as a basis of comparison, three factors are considered pertinent to the relative economic development of this sample; high levels of domestic investment, export-oriented policy regimes and an autonomous economic bureaucracy.

Firstly, all the countries in the sample exhibit high levels of domestic investment and low levels of foreign direct investment (FDI). Gross Domestic Capital Formation within our sample reveals that all countries use high levels of investment to encourage high levels of economic growth²⁸. The low levels of FDI are conspicuous compared to other developing countries; Booth concludes that FDI, although important, plays a lesser role in these countries compared to

²⁶ A tiger economy is one where the country aggressively pursues economic growth, consequently raising the standard of living for their citizens. Six of the seven countries are examples of this phenomenon, Japan the obvious exception.

²⁷ Although development occurred earlier in Japan, their developmental path is very similar to South Korea and Taiwan.

²⁸ Booth (1999) suggests that the Philippines is to a lesser extent suffered from lower growth due to its lower levels of investment within the economy.

domestic savings (Booth 1999). The northern developed economies, Japan, South Korea and Taiwan, all use domestic savings as means of channelling capital to private investors.

Secondly, the export-orientated policies of this sample serve as a basis for comparison (Booth 1999: 309). Within the sample countries, all parties, regardless of political ideology, favour export-oriented economic policies²⁹. As Booth emphasises; “it is essential in order to achieve the virtuous circle of rapid export growth leading to increased investment which in turn promotes further growth” (Booth 1999: 309).

Lastly, a strong theme that runs through each of the countries in the sample is the presence of an “insulated economic bureaucracy” (Booth 1999: 309). Free from government oversight, central banks and economic technocrats within the various ministries of finance are allowed to pursue coherent macro-economic policies that spur their accelerated economic growth. Lijphart (1999) similarly concludes, suggesting that these institutions are strongly correlated with significant economic performances, notably inflation.

Several conclusions can be drawn from this discussion. These countries are by and large on the same developmental track, the current literature highlights the success of economic policies, but overall little is presumed about the effects of

²⁹ This is probably due to party ideology not playing a part in Asian politics, consequently most parties that are elected in to executive office often follow closely similar economic policies of their predecessor (Haggard and Kaufman 1995; Blondel 1999).

democratic institutional change. The question remains to what extent are nascent democratic institutions able to influence social and economic performance?

Operationalisation

Hypothesis testing within a quantitative environment requires both sets of variables, independent and dependent, to be readily inputted as factors of an equation. However, in the case of social science many variables are not easily reduced to numerical scales due their multi-dimensionality, for instance democracy. Such qualities are therefore difficult to incorporate into a single dimension equation. In order to retain a simple single dimensional analysis it is common for only one element of democracy, such as civil and political rights, to be crudely quantified and then tested in the equation³⁰. Such an approach is, by necessity, a crude approximation of “degrees” of democratisation yet enables simple statistical analyses. Consequently the variables require indicators that not only represent some quality of the original form but are also able to undergo statistical analysis (namely, numerical indicators)³¹. For the sake of simplicity and

³⁰ See fn. 31 for discussion on “indirect relationships”.

³¹ Comparative (statistical) method research more often than not requires ancillary qualitative judgment to ascertain processes of “concept formation and measurement” (Jackman 1971: 176). Thus, by that definition alone research relies heavily on correct theoretical criteria. In terms of what is discussed above, measurement is often described as either direct or indirect (Przeworski and Teune 1970: chap. 5). Firstly, in terms of the direct case, “the measure defines the concept: if we define the level of economic development as gross national product, we are engaging in direct measurement.” (Jackman 1971: 176) Secondly, indirect measurement generally involves an “independently defined concept and one or a series of indicators that are taken to reflect that concept.” (Jackman 1971: 176) For instance, this thesis is looking at the institution executive-legislative relations; however, the independent concept is cabinet composition from which we use a nominal indicator used by Lijphart (see below). Consequently, this form of measurement owes its own validity “to the extent that it accurately reflects the concept, which means that validity is a matter of degree and involves judgment” (Jackman 1971: 176).

reliability all the independent variables for this analysis have indicators taken from Lijphart's (1999) work: cabinet composition represents executive-legislative relations, the effective number of parties within the legislature accounts for the party system, a cameral index reflects the strength of bicameralism for each legislature, and the Rae Index (1967) denotes the disproportionate nature of the electoral systems. The dependent variables/concepts that will be used and their indicators are derived from socio-economic literature and well-known scholarly sources: GDP per capita, growth, openness, unemployment, inflation, FDI, Human Development Index (HDI) and income inequality³².

Independent Variables

The rationales for three of the four variables – cabinet composition, party systems, and electoral systems – are very similar; the last institution, bicameralism, has a rationale that differs only in the organisation of veto players.

The design of an electoral system effectively determines the number of veto players in a parliament. In terms of political accountability, politicians “may have stronger direct incentive to please the voters if they are held accountable individually, rather than collectively” (Persson and Tabellini 2004: 81). Those elected via list-voting or proportional representation are less likely to attach responsibility of their actions to their electorates. In comparison politicians

³² In some instances the socio-economic indicators are simplified versions of the original or in some instances they are chosen due to their ease of manipulation and large sample size i.e. Penn World Tables.

directly elected through a constituency or a plurality/majoritarian election are somewhat more inclined to “put the electorate first” (Persson and Tabellini 2004). The indirect by-product of this accountability system is a higher predicted political rent-seeking in electoral systems that rely on list voting systems, due to the potential for large multi-party legislatures and coalition governments.

“Under single-party government, voters know precisely whom to blame or reward for observed performance. Under coalition government, voters may not know whom to blame, and the votes lost for bad performance are shared amongst all coalition partners; this dilutes the incentives of individual parties to please the voters.” (Persson and Tabellini 2004: 84) (See also Persson, Roland et al. 2003)

Party systems potentially affect socio-economic outcomes in two ways; firstly, when there are small numbers of veto players (such as in two-party or dominant party systems) they may form ‘catch-all’ organisations that generally ignore minority interests and provide non-specific economic policies that are considered fiscally prudent. Secondly, and conversely, where there are a large number of veto players within parliament, coupled with a lack of ideological links, this will likely result in smaller parties with links to special interest groups³³. A significant by-product of this system is the creation of pork-barrel politics and a concomitant reduction in economic productivity.

The number, and relative influence, of veto players may also affect cabinet composition. In this instance fewer veto players may permit majoritarian government which requires less compromise and therefore generates better

³³ Asian countries are not distinguished by ideological persuasion; see the comment below in the party systems classification.

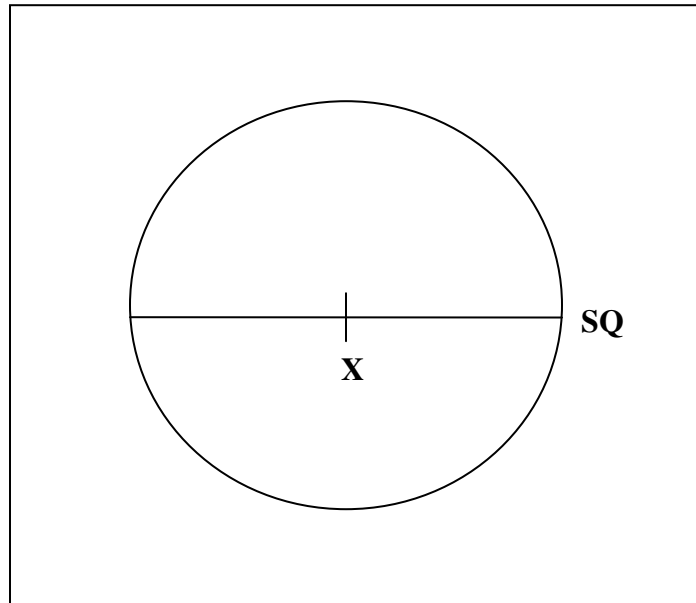
fiscal policies. Minority and oversized cabinets, on the other hand, tend to include additional veto players from the legislature and are likely to appease a greater constituent. This may result in diluted or inconsistent economic policy.

Bicameralism differs slightly from the other institutions in that its veto players, specifically the second chamber, are inherently competitive³⁴. Birchfield and Crepaz (1998) make the subtle distinction between the two sets of veto players as integral to understanding policy formation. Collective veto players are likely to occur within the electoral, party and cabinet institutions, due to the need to compromise and create policy. Conversely, competitive veto players, in particular the members of the second chamber, are generally less inclined to compromise, and this is exacerbated if mutual veto powers are also extended to them. A consequence of this type of institution is inflexibility of policy change and maintenance of the status quo.

It is important to explain here how the second chamber maintains status quo and thereby prevents policy change; Tsebelis and Money (1997) suggest that each chamber has its “new ideal policy” and therefore both chambers’ policy preferences must be accommodated in order to find a common ground (1997: 73). Figure 3.1 depicts the current policy as *SQ* and that within each chamber there is a new ideal policy point (IPP), in this instance *X*, that represents “*a point in space at which it would prefer to locate the legislative outcome*” (1997: 73).

³⁴ Whilst I suggest that it is likely for second chambers to have competitive veto-players, there still has to be interaction with the lower chamber which for most part generally has collective veto-players.

Figure 3. 1 A single chamber and its ideal policy point

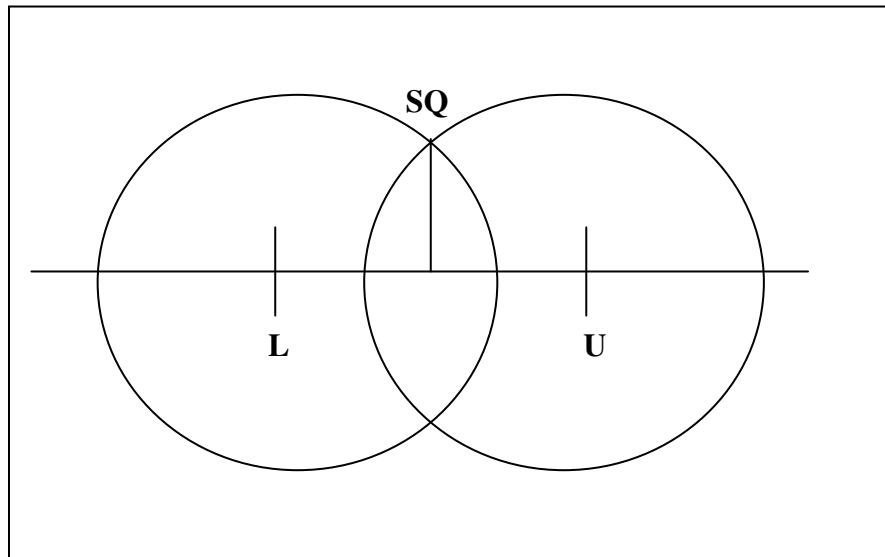


(Tsebelis and Money 1997: 74)

Tsebelis and Money (1997: 74) further add that in this example that if the chamber cannot attain its ideal policy, then any outcome that is close to 'X' is preferred: "more precisely, each chamber is indifferent among points that are equally distant from its own ideal point".

To understand how IPPs are of relevance in a bicameral system, we can assume that each chamber has a different ideal policy point. In the diagram below, 'U' represents the upper house's IPP and 'L' for the lower house:

Figure 3. 2 The intersection of the two chambers and their ideal policy points



(Tsebelis and Money 1997: 74)

Further, within “a unicameral legislature (assume the lower chamber, L), *the winset of the status quo*, that is, *the set of points that defeat the status quo*, would be the entire area of a circle with centre L and radius LSQ” (Tsebelis and Money 1997: 74). Figure 3.1 depicts a scenario in which, irrespective of the ideal policy, the whole area inside the circle represents a series of available outcomes which are also changes to current policy.

The addition of a second chamber (Figure 3.2) reduces significantly the winset of the status quo “to the intersection of the two circles, one with centre L and the other centre U” (Tsebelis and Money 1997: 74). Legislative outcomes of both chambers are therefore fewer than can be attained if there was one; this is because there are only a limited number of ideal policy points that both U and L readily agree on – in this instance represented by the intersection. This point is

also emphasised by Riker (1992a; 1992b) who suggests that is more difficult to attain two majorities in separate chambers over one policy than it is for a single chamber. Hence the farther away the ideal policy points are from each other the smaller the intersection (Tsebelis and Money 1997). This is in part due to fact that if there are two very similar ideal policy points, there is are also a greater number of points in each circle that overlap; in contrast, two very dissimilar ideal policy points results in very few potential mutually acceptable outcomes.

The reasons for disagreement over ideal policy points are potentially due to differences in the composition of the chambers. I contend that the varying strengths of the second chamber (expressed as per Lijphart's index) change the nature of the legislative outcomes³⁵.

Cabinets

The independent variable for this institution is cabinet composition. It examines the extent to which the cabinet reflects the legislature. Lijphart (1999) categorises cabinet structure into three levels of legislative support. Firstly, "minimal winning cabinets" are in essence the bare minimum of parliamentary seats, either controlled by a party or a coalition of parties, needed to gain a majority in the legislature (Lijphart 1999: 90). Therefore extra seats are unnecessary in order to have simple control over legislation. Secondly, "minority or undersized cabinets"

³⁵ Lijphart's (1999) index is explained on page 44.

are without the support of a parliamentary majority and often require other parties to avoid votes of 'no confidence' and therefore the safe passage of government legislation (Lijphart 1999: 91). Lastly, Lijphart classifies "oversized cabinets" as simply that "which contain more parties than are necessary for majority support in the legislature" (Lijphart 1999: 90).

Due to the statistical nature of this thesis I will assign these three cabinet categories with nominal values; hence minimal winning cabinets are a one, minority cabinets are a two and lastly oversized cabinets are given a three³⁶.

Party System

The assessment of party systems often involves the examination two factors - party fragmentation and polarisation. The first refers to the 'effective number of parties', whereas the second is "defined as the ideological distance among parties" (Powell 1982; See also Giacomo and Sartori 1983; Zhang 2003:73). In this thesis, party systems refer to fragmentation given that differences in ideological persuasion are minimal within East Asia (Haggard and Kaufman 1995; Blondel 1999). Many opposition parties do not advocate policies which differ from those of other major parties. Such is the position of these "nonpolarised party systems" that parties are often referred to as "pragmatic", meaning that the relationship between party and popular support stems from a

³⁶ Although some of my countries are strictly presidential, Philippines and Indonesia, or semi-presidential South Korea and Taiwan, I will refer to all executive offices as "cabinets".

shared interest for good governance and not “strong ideological commitments” (See also Haggard and Kaufman 1995; Haggard 1997: 135).

Well-known work undertaken by Sartori (1976) addresses the prospect of categorizing multiparty systems. Indeed, he saw the need to reference parties according to their actual presence within the system, not wanting to accredit smaller parties that may not affect potential government formation. Effectively, this method discounted parties that did not win seats and those that did not have coalition viability or the potential to become ‘kingmaker’. Similarly, Blondel (1968), created a classification system based on size of the parties and number within the system. Simple in design, it accounts for the major and minor parties within a political regime, classifying the latter as “half a party”. Although highlighting the effective number of parties it remains imprecise and unusable for any greater classification scheme. Both models rely on subjective assessment of what constitutes as a party within a given system. For this reason I have relied on more sophisticated methods of categorising party systems.

Lijphart adopted an index developed by Laasko and Taagepera (1979) to calculate the effective number of parties which is summarised in the following equation³⁷.

³⁷ An alternative to this method is an index that is constructed using votes instead of seat percentages. Lijphart (1991) suggests that seat percentages follows on the argument that it is pertinent to the study of the effects of parties operating within parliament and particularly to cabinet formation.

$$N = \frac{1}{\sum s_i^2}$$

The number of parties (N) is the proportion of seats (s_i) “of the i-th party”(Lijphart 1999). For this variable it is the percentage of seats won by each major party, ignoring those won by independents and those grouped together as “others”. For example in the Japanese 1990 election, the major parties scored 56%, 27.2%, 9.0%, 3.1%, 2.7% and 0.8% respectively; with 0.2% and 0.4% allocated to Others and Independents respectively. The index is then calculated by converting the percentages to fractions for instance 56% became 0.56; subsequently a square root is assigned for every value and each number is added together, in this instance 0.397458. The last step of the calculation is to divide one by this number to create the effective number of parties for this electoral cycle, 2.5 (rounded to 1 decimal point).

Bicameralism

Lijphart’s (1999) categorisation of cameral structures is a classification system that can be formulated as an index number detailing each country to a variety of cameral structures. Lijphart’s theory has two core aspects:

1. The first major difference between the two chambers is the balance of constitutional powers. In most instances the second (upper) chamber defers in some way to the first (commonly an upper chamber retains a power of veto but may not initiate legislation), whereas in rare instances they are of equal weight.

The aforementioned points can be assigned a dichotomous definition either as asymmetrical, where the chamber has unequal power, or symmetrical, whereby the second chamber has equal power.

2. The second aspect is the manner of the election of the second chamber: it may follow different electoral rules than for the lower house. In many instances this is intended to “over-represent certain minorities” and Lijphart refers to this as “incongruence” (1999: 207). A prime example of this phenomenon is the election of senators in the United States of America with two candidates being elected from each state irrespective of the population size.

Lijphart uses these two cores aspects to construct a simple index that categorises the strength of bicameralism:

- 4.0 - strong bicameralism
- 3.0 - medium-strong bicameralism
- 2.0 - weak bicameralism
- 1.0 - unicameral;

There are four things to note about this index. First, strong bicameralism is “characterised by both symmetry and incongruence” (Lijphart: 1999: 211). Second, medium-strong bicameralism is able to be divided into two subclasses, both given the same ranking and each determined by the absence of either symmetry or incongruence. Third, there was no strong bicameralism noted with our sample and hence the index effectively stops at 3.0. Lastly, although weak bicameralism is classified as being both asymmetrical and incongruent, and as such the majority of power lies with the first chamber, many theorists still deem this as precluding it from assuming de facto status as a unicameral political system (See Heller 1997; See Tsebelis and Money 1997). Heller (Heller 1997) concludes that the presence of a weak second chamber enables further input into policy decision-making even though the second chamber may be controlled by the same party.

Electoral System

For this analysis I used a formula to measure the extent to which each electoral system was “disproportionate”³⁸. The Rae (1967) index averages out the percentage difference of the votes to seats between the government party and the largest opposition party³⁹.

$$\frac{v_i - s_i}{2}$$

Here, $v_i - s_i$ represents the difference between the percentages of votes garnered in the election and the actual number of seats awarded to the i th party. Subsequently, the two party differences are added together and divided by two to calculate the disproportionate score. Essentially, the lower the score the closer the system is to full proportionality, and therefore is considered fairer insofar as each vote cast has equal value. Higher scores signify plurality, by which an electoral system that rewards voters for winning candidates but ignores the losers’ votes, thereby reducing the democratic legitimacy of the whole system. For example in the South Korean 2000 elections, the two major parties (GNP and

³⁸ Disproportionate refers to the percentage difference between seats held by a party and the total number of votes accumulated in the election. For instance in the plurality/majoritarian system it is possible to win a constituency with 11% of the popular vote particularly if the rest is distributed between nine or more other candidates. Hence, in these types of elections there is a propensity for the governing party to have a majority in the legislature but not have it reflected in their popular vote.

³⁹ Other methods of acquiring the disproportionality of a system are either by the additive system, whereby the differences between the major parties are added together e.g. the Loosemore-Hanby Index (1971). The downside to this method is the inability to “distinguish between a few large and serious deviations and a lot of small and relatively insignificant deviations” (Lijphart 1999: 158). Conversely, the other alternative is the Gallagher (1991) index used in Lijphart’s (1991) work to account for disproportionality, this system effectively builds on the Rae index two-fold, firstly, each vote-seat share is squared; secondly, once the result is divided by two it undergoes the square root function. I did not use it here to due to its unnecessary complication (Loosemore and Hanby 1971).

MDP) gained 39% and 35.9% of the votes respectively, compared to their acquisition of 48.7% and 42.1% of the seats respectively (Croissant 2001: 454 - 456). Hence the differences for the respective parties, 9.7% (GNP) and 6.2% (MDP) added together is 15.9, and then divided in half results in an index score of 7.95. Comparatively other electoral cycles for the rest of sample ranges from Indonesia's low [2004] 1.5 to Malaysia's high [2004] 19.05 (Carr 2007)

Dependent Variables

These indicators represent the value of the current business cycle. Specifically these statistics or dependent variables for instance, inflation or unemployment suggests "how well the economy is doing and how well the economy is going to do in the future" (Moffat 2007).

GDP per capita (Real) is calculated by "first applying the component growth rates between each pair of consecutive years, $t-1$ and t ", in this thesis I am examining the years (t) 1986 to 2000, "to the current price component shares in $t-1$ to obtain the domestic absorption (DA) growth rate for each year. This DA growth rate for each year is then applied backwards and forwards from [2000] and summed to the constant price net foreign balance to obtain the Chain GDP series" (Penn World Table 2004a: 11)⁴⁰.

⁴⁰ Domestic Absorption defined: "A nation's total use of its own output of goods and services in consumption and investment" (Rutherford 2002: 150).

Openness, is defined as the total number of imports and exports over real GDP per capita expressed as a percentage of GDP (Penn World Table 2004a). It is a general test of the extent of controls and policies that a specific country has over imports and their exports respectively. A higher number is indicative of lower tariffs and an export-led economy.

Unemployment relates to the rate of unemployed each year expressed as percentage points. This indicator for all the countries except Japan in this thesis is derived principally from the Asian Development Bank Key Indicators Reports (2003a; 2006). Japan's unemployment rate was exported from the World Bank Development Indicators Online database (2006).

Inflation in this instance refers to consumer prices. Due to availability of data Taiwan is included in this measure. Consumer prices are measured as an annual rate of change, with the year 2000 as base year (2000=100). Data is taken from International Monetary Fund's World Economic Outlook Database (2006) from between the years 1986 and 2005.

Foreign Direct Investment is the term given to the "net-inflows of investment" from foreign nationals into a given country (World Bank 2006)⁴¹. This wide definition therefore includes the "sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of

⁴¹ The World Bank further defines this investment as "acquiring a lasting management interest" in a given enterprise, this may be "10 percent or more of voting stock" (World Bank 2006).

payments” (World Bank 2006). The data used for this thesis is the sum of the net inflows divided by GDP, and is from the years 1986-2005.

The Human Development Index (HDI) is a composite index measuring human development. It is made up of three factors:

“a long and healthy life, as measured by life expectancy at birth; knowledge, as measured by the adult literacy rate and the combined gross enrolment ratio for primary, secondary and tertiary schools; and a decent standard of living, as measured by gross domestic product (GDP) per capita in purchasing parity (PPP) US dollars”

(UNDP 2006)

Income Inequality in this thesis has two measures, the first being a simple and crude indicator using only the top decile score as measurement of the inequity of income dispersion⁴². This method is employed because insufficient data is available for a more extensive analysis. Hence the indicators are in actuality the percentage of Gross National Product controlled by the richest ten percent of each country (WIDER 2007)⁴³. The second measure uses Gini coefficient scores which:

“measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received, against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus, a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

(World Bank Development Indicators Online 2006)

⁴² Unfortunately, due to a lack of consistent data for all countries across the sample I used two measures.

⁴³ Data for this research came from the World Income Inequality Database (WIDER 2007): scores for Japan come from Shirahase (2001); Taiwan has its’ scores derived from the Luxembourg Income Study (LIS 2005); Cheong (2005) provided the scores for South Korea; and the four other countries, Indonesia, Malaysia, Philippines and Thailand come from unpublished work of Deninger and Squire (2004).

This thesis uses Gini coefficient scores from the Central Intelligence Agency (CIA) World Factbook (1999; 2000; 2001; 2002; 2003; 2004; 2007).

Method

This thesis employs a cross-national statistical research method to explore evidential relationships between democratic institutions and socio-economic indicators.

Comparative Method Defined

The intention of this research is to find patterns within the quantitative data which justify causal inferences. Jackman (1985) considers this point further: “our goal is not to generate “comprehensive” descriptions, but rather to develop probabilistic generalisations about the causal relationships (or lack thereof) between variables” (1985: 166) (See Also Lijphart 1971). However, central to the understanding of the comparative method is the acknowledgement of its limitations. A misconception about social science is that causation can be “empirically demonstrated” but that can never be accomplished (Jackman 1985: 172). As mentioned above, this research aims to establish causal inferences within the empirical patterns. Unfortunately, even though statistically there can be strong evidential results, the comparative method also requires theoretical underpinnings to interpret the data.

Quantitative Analysis Method

This analysis attempts to gauge the relationship between four democratic institutions from across seven countries and seven socio-economic performance indicators. The analysis requires a method that accommodates a limited number of variable and cases but provides suitable data⁴⁴. Cross-national statistical analyses that have fewer variables normally use ordinary least squares [OLS], also known as simple linear regression, to calculate correlation between variables. OLS is derived from the process of finding a trend line between two variables and their respective data or in other words a 'line of best fit'. It is constructed by attempting to minimise the sum of the squares of the difference between the fitted function and the data (StatSoft 2003).

This thesis examines the data as discrete electoral cycles. All dependent variables were grouped and averaged out for the electoral cycle for a given country. For instance, South Korea's 1992-95 cycle, had respective inflation scores of 6.2%, 4.8%, 6.3%, 4.5% and therefore the average rate for the period was 5.45%. The HDI however had only one score for every five year period and therefore several cycles of some countries were omitted⁴⁵. Independent variables are calculated somewhat differently. Three of the institutions were liable to change each election due to new voter preferences. For instance a new type of

⁴⁴ Although this exploratory thesis is not intended to be definitive, where there is a significant correlation within the regression, it stands that this would remain so in a larger dataset.

⁴⁵ In the case of Taiwan, I purposely did not calculate their HDI scores. Unfortunately their status is not recognized by the United Nations; hence, scores for this country were omitted from their tables.

coalition is elected into the executive that differed from the previous elections; Thailand's TRT Party formed a minimal-winning cabinet in the 2005 elections, a stark contrast to the oversized cabinets of the previous two decades of Thai politics (McCargo and Pathmanand 2005). The exception to this rule is the cameral index; Indonesia moved from a unicameral system [1.0] to a medium-strong bicameral system [3.0] in the 2004 electoral cycle. Progression in this instance involves constitutional change and is largely definitive. Several of the institutions however are liable to change midway through a cycle such as cabinet composition. For the sake of simplicity I have recognised the new change only when it persists for the majority of the electoral cycle. Japan's 1993-95 electoral cycle initially saw an oversized coalition assume power only to disintegrate several months later and a minimal winning cabinet take power for the remainder of the term. This period is categorized as a minimal winning cabinet because of the majority of the cycle was spent under that formation.

What is Simple Regression? What is OLS?

Simple regression is a technique used to “learn more about the relationship between several independent predictor variables and a dependent or criterion variable” (StatSoft 2003). Importantly a line of best fit, while primarily describing a relationship, also provides predictive value as to future trends. In other words a straight line is drawn to accommodate all the data points (Dallal 2007):

$$\hat{y} = b_0 + b_1x$$

Where \hat{y} refers to predicted data variable, b_0 is the y-intercept at Zero and b_1x is the gradient of the slope adjusting for the independent data variable (x) (Dallal 2007).

Residuals that are placed closed to the line represent a strong relationship, conversely, residuals further away from the regression denotes a weak regression (Dallal 2007). Residuals refer to the distance between the observed data and the predicted data. The latter is derived from the line of best fit; in terms of an equation it is represented by $(y_i - \hat{y})$ where, y_i is the observed data value and \hat{y} is the predicted data value from the trend line (Dallal 2007).

OLS is simply a linear regression for a sample population. This is particularly useful when the original population is large because it allows “analysts [to] generalise from the sample in hand to the population from which the sample was drawn” (Dallal 2007). Hence the equation has some resemblance to the sample equation:

$$Y_i = \beta_0 + \beta_1 X + \varepsilon_i$$

Here, β_0 and β_1 are the “population regression coefficients and ε_i is a random error peculiar to the i-th observation” (Dallal 2007). It must be remembered that when one draws relationships from these sample populations there is a degree of uncertainty when applying to the greater population (Dallal 2007).

Chapter Four: The Democratic Institutional Effect on East and South-East Asian Countries

Introduction

The previous chapter mapped the hypothesis-testing framework for the research and illustrated the comparative method. This chapter examines to what extent political institutions – cabinet composition, party systems, bicameralism and electoral systems – affect the performance of the societies and economies of East and South-East Asia. The data will highlight some expected relationships between effects of political institutions on socio-economic outcomes and some of the unexpected results. The significance of these new relationships is explored principally by asking what effects these democratic institutions have on socio-economic performance indicators and what this means for the sample and literature in general. Further, my intention is to combine substantive research and theoretical criteria in the context of particular countries: although context cannot be operationalised into an equation, it contributes to the further understanding of the research.

Due to this thesis' exploratory nature, however, these findings are not in any way meant to be definitive. Indeed, this research is essentially without a constant variable to control for external economic and political influences, and thus statistical perfection (as in all social sciences) is impossible to obtain. It is also

important to remember that significant correlations are not necessarily indicative of a direct or indirect relationship; but must be viewed with a theoretical underpinning.

The rest of this chapter examines each of the socio-economic indicators; the sections will explore whether the hypotheses from Chapter Two hold true for these developing democracies and to what extent new relationships are revealed and are able to be explained.

Inflation

The results for the regression between institutions and inflation, Table 4.1, are presented here.

Table 4.1 Institutions and Annual Change in Inflation 1986-2005 (%)

	Unstandardised Coefficients	Standard Error
Institutions		
Coalition Composition	-2.386**	0.999
Cameral Index	-1.608	1.111
Effective no. of Parties	1.634**	0.799
Disproportionality Index	0.158	0.262

$r^2 = 0.224$

* $p < .01$ ** $p < .05$ *** $p < .01$

Note: $n = 40$

Source: *International Monetary Fund's World Economic Outlook Database* (2006)

What is apparent from the above analysis is a significant negative effect of the coalition independent variable on the annual change in inflation. For every increase of the nominal scale prescribed for cabinet composition (in this instance a minority cabinet and oversized coalitions) there is a sizeable inflation

decrease⁴⁶. The interpretation of results, specifically the implications of “consensus democracy” and its effects on lowering rates of inflation emphasises the point made by authors such as Lijphart (1984, 1991, 1994, 99), Crepaz (1996), and Crepaz and Birchfield (1998). The presumption is that as the number of actors within an executive increases so too does the number of veto players, prompting the prospect of compromise as opposed to polarisation between major actors over decision. This reinforces the comment made in chapters two and three regarding the role of collective veto players and policies that accommodate wider general interests rather than simply those of the majority winner. The corollary of this, Crepaz’s (1996) claim that coalition cabinets provide continuous government and thus negate the effect of a change in office, something associated with Westminster-style government executives. I contend such changes in government in a non-coalition system are potentially inflationary. This is due to the fact that in two-party systems the “scale of (executive) change” is large when each party takes its turn in offices; comparatively, multiparty coalition cabinets generally have small changes in the minority partners and each electoral cycle, and therefore as a whole, policy change is less drastic (Crepaz 1996: 95). Crepaz further adds that the need for continuity is out of “necessity rather than virtue” due to small duration of tenure for coalition executives (Crepaz 1996: 96)⁴⁷. Veto-player theory puts it more simply: coalition

⁴⁶ Although a minority is in the strict sense of the word really a one party executive, within the parliamentary and semi-presidential systems legislative support requires other parties outside cabinet. Lijphart (1999) considers this de facto coalition relationship an example of consensus style politics.

⁴⁷ Crepaz (1996) examines coalition governments as forms of Olson’s encompassing organizations. He premises his theory on the idea that popular cabinet support for the coalition executive leads to more inclusiveness in a particular government. Further, more interests encompassed within one coalition

governments or minority governments have few powers to alter budgetary policies due to lack of support (Tsebelis and Chang 2004). Powell (1982: 224) extends this further: “coalition or minority governments are much less likely to manipulate the economic cycles for electoral advantage than are those in countries with single party majorities or presidential executives”. In the latter type of systems Powell suggests there is an increased likelihood that the governing party will spend large amounts of money as an incentive to the prospective voter; the outcome of this action is often inflationary pressure. The combination of both the continuity of governance and the lower likelihood of the executive using expenditure while in office as a means of electoral promotion, results in lower inflation.

Table 4.1 raises an interesting question about the implications of a large number of collective veto players in both cabinets and legislatures; it suggests coalition institutions are significantly correlated with lower inflationary levels. Conversely, systems with numerous parties may experience an increased level of inflationary pressure. Although this thesis examines the institutions and their correlations separately, logically, for there to be an increased likelihood of a coalition cabinet and lower inflationary levels, a large multi-party legislature is needed. Whatever the nature of the relationship (whether the link exists solely between number of parties and inflation, or cabinet structure is also an important factor) the

increases the likelihood that government will support the general electorate through policies such as lower unemployment and better quality of living (Crepaz 1996).

relationship points to another important condition in Asian party politics, party fragmentation⁴⁸.

Cohesive party systems – with lower levels of party fragmentation – are less likely to suffer from policy coordination problems. Haggard (1997) suggests that as a consequence of a small number of larger parties, there is a general push towards the centre and hence fewer differences between each major party's policies⁴⁹. However, Haggard points out that these parties, the product of this institution, are advantageous in terms of stable policy and better socioeconomic outcomes⁵⁰. Specifically, the emergence of a crisis, strong popular support can enable relatively swift reactions in systems with few parties (See MacIntyre 2001). Terra (2002: 281), suggests something similar, stating that the majority of successful economic development and low inflation has occurred in “two-party or dominant-party systems”.

Extreme forms of party fragmentation may have a deleterious effect on the formation of socio-economic policy. Principally it indicates that policy coordination within parliamentary coalition governments is likely to be undermined by multiple veto-players within the executive. (Roubini and Sachs 1989a; Roubini and Sachs

⁴⁸ Haggard and Kaufman (1995) view political party issues as products of two factors party fragmentation, the effective number of parties in the legislature; and, ideological persuasion. However, the Asian setting is different in that the latter factor as little bearing and therefore most problems are assumed to be related to the first factor (Haggard and Kaufman 1995; Blondel 1999).

⁴⁹ Due the incorporation of a vast number of interests within these parties they are aptly termed “catch-all” (Haggard and Kaufman 1995).

⁵⁰ But due to the fine line between parties becoming either the government or opposition there is expected to be resistance to “reforms when these threaten patronage opportunities or remove protection from core constituent.” (Haggard 1997). Further, the semblance of strong political will against reform would precipitate the rejection of radical changes for a “more incremental approach” (Haggard 1997: 137).

1989b; Haggard 1997; MacIntyre 2001). Similarly, presidential systems can also suffer policy coordination problems; Mainwaring (1989) suggests that in comparison to parliamentarism, weaker parties in presidential legislative systems are less likely to cooperate with the government due to fixed-term elections, thus discounting a potential threat (negative voter reaction) but also allowing possibility of greater “legislative blackmail” by the smaller parties (Haggard 1997: 135)⁵¹.

Asian democracies are noted for a lack of ideological polarisation (Haggard and Kaufman 1995; Blondel 1999). Thus the removal of such ideological conflict and the “absence of strong left or populist parties [means], the principal coordination problems [are] centred on the struggle for pork” (Haggard 1997: 136). As a result there is an increased likelihood of the multiple veto players competing for patronage within the legislature; however this type of non-partisan institution has potential to give rise to oversized coalitions. Although there are difficulties resulting from large numbers of rent-seekers in the legislature, it effectively ensures that the executive cannot necessarily favour one special interest due to a lack of support for alteration of budgetary restraints: no party will stay in the coalition if it perceives its interests to be threatened.

In conclusion, both Table 4.1 and the literature point to large multi-party legislatures within Asian democracies as not conducive lower inflation levels. I

⁵¹ The proviso for high number of effective parties in a party system is not necessarily a proportional representation system. In many instances the low levels of party institutionalization within nascent democracies can also produce an inordinate number of parties.

contend that a party-system with little ideological polarisation and high party fragmentation is related to increase inflation levels. In the case study below, South Korea started with a high inflation and large number of parties (3.5) but progressively had smaller inflationary scores and numbers of parties over subsequent electoral cycles.

What table 4.1 does not show is the hypothesised correlation between the cameral index and inflation. Tsebelis and Chang (2004) suggest that this institution is useful in controlling the rate of inflation, however this relationship is not apparent in this sample. The authors contend that one of the second chamber's strengths is to reduce inflationary pressure; whilst there does seem to be some variation, its lack of significance may indicate that within emerging Asian democracies there is less importance on curbing inflation particularly if there is good economic development occurring.

Case Study: South Korea

A prime example of Table 4.1 appearing in context is the South Korean (hereinafter referred to as 'Korean') democratisation period. That country has a semi-presidential system with a unicameral legislature, a multiparty system and an executive that relies on legislative support⁵².

⁵² A common characteristic of presidential cabinets are their tendencies to be elected from outside parliament, but generally from within the same party. In semi-presidential systems there are cabinets that duly reflect the strength of the legislature and can be considered cross-party coalitions. In the South Korean example there are notable examples of the president inviting other parties into the executive in

Korea's "Third Wave" democratisation occurred with the 1987 election of Roh Tae-woo as its country's first directly elected president; however the subsequent 1988 National Assembly legislative elections saw a split of the vote four ways, with each party failing to secure a majority (Park 1988; Kim 1989; Lee 1990; Park 2002). This new multi-party legislature, effectively a three-and-a-half party system, prompted the president's Democratic Justice Party (DJP), Korea's largest, to incorporate two parties into a coalition to secure a majority (Croissant 2001). The resulting inflation rate for the 1988-91 electoral cycle is slightly high (7.7%) (IMF 2006) even taking into account the oversized coalition and large number of parties; however the effects of these institutions becomes significant in later electoral cycles . Thus it is useful to use this cycle as a benchmark in regards to later electoral cycles, periods where the democratic tradition is presumably further entrenched.

The next election in 1992 contained 2.7 parties with a newer one, the Unification National Party (UNP) garnering a small part of the national electorate (Croissant 2001; Park 2002). The inflation score for this period was 5.5% (IMF 2006). Kim Young Sam's presidential election win the next year destined this latter party to political oblivion (Park 2002). Shortly before the Fifteenth National election in

order to gain a majority in the legislature. Although many claim that this legislature suffers under a 'delegative presidency' whereby the executive wholly wields all power, it is not surprising that without a majority in the legislature there is enough veto power imbued in the system to counter any ill-warranted move (Haggard 1997: 137) . I argue here that although the party system suffers from low-levels of institutionalisation their presence warrants significance particularly as democracy matures, for instance the last several electoral cycles has weakened the Korean executive somewhat.

1996, several of parties transformed, the Democratic Party (DP) became National Congress for New Politics (NCNP), DLP changed to the New Korean Party (NKP), and the United Liberal Democrats (ULD) was a breakaway section of the old DLP (Park 2002). Legislative election results saw the creation of larger number of effective parties than the prior electoral system, 3.1, and an electoral inflation cycle score of 4.4% (Croissant 2001; IMF 2006). However it was not until 1997 presidential election that there was the first instance of a successful transition of executive power to the opposition. Again the emergence of a larger party-system ensured that no party enjoyed a majority within the legislature (Steinberg 1998; Park 1998/1999; Chung-si and Hoon 1999). The president's party the NCNP could not command a majority even when in coalition arrangement with another party, prompting this country's first minority government⁵³.

The Sixteenth National Assembly election in 2000 progressed along similar lines to the previous electoral cycle, however, the effective number of parties reduced to 2.4. The hybrid presidency continued with its minority government failing to secure a majority coalition in the legislature. One effect of this consistent consensus-style executive was presumably the lowering of inflation for another electoral cycle, 2003-4 (3.2%) (IMF 2006). Further the subsequent Seventeenth Assembly election in 2004 saw another minority coalition and the same number of effective parties in the legislature (2.4) (Carr 2007). Again for a fourth consecutive electoral cycle the inflation is lower at 3.2% (IMF 2006).

⁵³ This is applicable here due to the nature of the semi-presidential system (See Chapter Two).

In summary, contemporary electoral patterns and inflation rates in South Korea reflect the further entrenchment of democratic traditions. The initial cycles (between 1988 and 1995) saw an oversized coalition and subsequently a minimal-winning cabinet with 3.5 and 2.7 multi-party legislatures, the inflation decrease between the two cycles does support the theoretical ideas as to the effect that these institutions may indirectly have on the inflation. However, the last three cycles corroborate the results of the empirical analysis better, in which minority-led cabinets in tandem with smaller multi-party legislatures led to sustained periods of lower inflation.

Unemployment

Table 4.2 (below) shows the relationship between different institution types and unemployment rates. The first noticeable trend is the coalition institution exhibiting a negative effect on the rate of unemployment (-0.784). Chapter Two hypothesised that consensus institutions, coalitions in particular, would have significant effects on lower unemployment rates, which are often an issue of contention for the general electorate (Crepaz 1996). Crepaz (1996) assigns coalitions the same effect as that of Olsen's "encompassing institutions"⁵⁴. An increased number of veto players within the decision-making process enhances the inclusiveness of public policy; more interests encompassed within a greater

⁵⁴ The general electorate may in this instance be those directly affected by the effects of unemployment.

organisation further multiples the likelihood that government will support the general electorate.

The second noticeable point is the lack of significance between the effective number of parties and the rate of unemployment. Discussion in Chapter Two showed that both Tsebelis (1995) and Crepaz (1996) strongly concluded that this institution might be expected to reduce the rate of unemployment in a country. The premise is that, due to the large number of actors within the system, each viable party would be open to rent-seeking by particular sections of society, including those for whom employment was scarce. As a consequence the rate of unemployment would lower as the legislature increased. However, no significant correlation could mean that within the Asian democracies this particular theory does not apply, it may be a consequence of ideological polarisation present within their party-systems (Haggard and Kaufman 1995; Blondel 1999).

Table 4. 1 Institutions and Rate of Unemployment 1986-2005 (%)

	Unstandardised Coefficients	Standard Error
Institutions		
Coalition Composition	-0.784*	0.446
Cameral Index	0.465	0.497
Effective no. of Parties	0.445	0.357
Disproportionality Index	0.027	0.117

$r^2 = 0.176$

* $p < .01$ ** $p < .05$ *** $p < .01$

Note: $n = 40$

Source: All data for all years except for Japan are from *Asian Development Bank Key Indicators Reports* (2003a; 2006); Japan's unemployment rates exported from the *World Bank Development Indicators Online Database* (2006).

As shown in Table 4.2, the disproportionality index, the indicator for electoral systems, has little effect on unemployment. Like the hypothesised relationship with lower inflation, there is insufficient variation occurring within the countries to give rise to a significant correlation.

Case Study: Thailand

Thailand provides a good example of the relationship between coalition governments and the rate of unemployment. Thailand is notorious for having short electoral cycles; one by-product of its fractious democratic history is a tendency for coalition governments (McCargo and Pathmanand 2005). Due to Thailand's adoption of a parallel electoral system, and weak institutionalisation of party systems, the initial electoral cycles of democratic Thailand [1986-1994] was filled with lots of collective veto-players within the executive⁵⁵. Consequently there has been an abundance of oversized executive coalitions and therefore according to the literature one should see several electoral cycles of low unemployment rates.

Thailand's first several electoral cycles had large oversized coalition executives but also low rates of unemployment⁵⁶. Although the first electoral cycle (1986) was not purely democratic in the sense that prime minister was unelected, General Prem Tinsulanonda (Prem) nevertheless created a coalition government from the political parties operating within the legislature (Maisrikrod 2002). The average rate of unemployment for this electoral cycle was 4.1%; inevitably this

⁵⁵ A parallel electoral system is form proportional representation that operates along side an often smaller plural electorate. Unlike mixed-member proportion representation, this parallel system runs both forms of electoral system independently of each other; therefore neither has an effect on the other.

⁵⁶ For the purpose of convenience I will examine only the governments that last longer than a year. Thailand was notorious for having short-lived governments, however I have normalised the effect to establish significant relationships between the coalition governments and the rate of unemployment

set the trend of low unemployment through oversized coalition and that became the initial starting point for Thailand's new democratic tradition (ADB 2003a).

The first wholly directly-elected executive was headed by Chatichai Choonhavan of the Chart Thai party in 1988 (Maisrikrod 2002). Heading an oversized cabinet, Chatichai and his government seem to have further lowered the rate of unemployment further, to 2.1% (ADB 2003a). The subsequent 1992 election followed a brief interlude of a military junta when the Chatichai government was removed from power for alleged corruption (Sulistiyo 2002). The election of 1992 witnessed a pro-democracy political coalition gain government.⁵⁷ The Democrat Party led by Chuan Leekpai, coordinated a minimal-winning political coalition that established political stability and continued Thailand's low unemployment rate, 1.3% (Sulistiyo 2002; ADB 2003a) .

Thailand's third major electoral cycle (1995) is the longest to date in its new democratic tradition. Spanning five years it incorporated the end of a virtuous run of successful economic development, the onset of the 1998 Asian Financial Crisis and Thailand's consequent recovery. Because this thesis normalises the electoral cycles, there are two values for this cycle, 1995-97 and 1998-2000, however it does allow a comparison between before the crisis and afterwards. Indeed, the first half of the government period from 1995 onwards, Thailand

⁵⁷ The military coup leaders dissatisfied with the Chatachai government decided to create their own party and compete within their own style election. Their subsequent election and government of 1992 came under pressure from the general populace prompting the need for fresh elections the same year (Chung-si and Hoon 1999).

enjoyed an unemployment rate of 1%; post-crisis the unemployment rate was high 2.9%, but as we will see the figures from the next coalition government reduce this cycle average (ADB 2003a).

In terms of political significance, Thaksin Shinawatra's election as Prime Minister in 2001 was a watershed for Thai democracy. Elected with a huge popular mandate, Thaksin and his Thai Rak Thai Party (TRT) oversaw an oversized coalition government (McCargo and Pathmanand 2005). This is further reflected by the drop in the rate of unemployment for the electoral cycle (2%) (ADB 2006). The recent election in 2004 saw the TRT forming a minimal winning cabinet, for only the second time in Thai politics. However, the unemployment rate still continued to be lower (1.3%).

In review, Thailand provides a clear illustration of Table 4.2 coalition composition correlation. Indeed, the Asian Financial Crisis aside, oversized coalitions are more likely to lower unemployment, prompting the question of what the legacy of Thaksin's TRT minimal-winning cabinet will be on the legacy of low unemployment in Thailand.

Foreign Direct Investment

Unlike inflation and unemployment indicators, very little institutional literature discusses the relationship between democratic institutions and foreign direct investment ('FDI'). Table 4.3 examines the strong positive relationship between the bicameral institution and FDI; suggesting countries with strong bicameralism may enjoy higher levels of foreign capital.⁵⁸ Borrowing the concepts from Bradbury and Crain (2002) in terms of fiscal policy and those of Birchfield and Crepaz (1998) and their sense of competitive veto players, it is possible to construct an argument that there is significant correlation between the two. I suggest that the competitive veto players in a medium-strong second chamber may stop governments from implementing nationalist-type policies which restrict the use of foreign capital.

⁵⁸ Before examining the countries below it is obvious that the development path of South Korean and Taiwan is considerably different than of Malaysia and Thailand (Sulistiyanto 2002). The former two countries rely heavily on domestic capital to spur economic performance yet both have unicameral legislatures compared to the medium-strong bicameral institutions employed in the latter two countries.

Table 4. 2 Institutions and Foreign Direct Investment 1986-2005 (%)

	Unstandardised Coefficients	Standard Error
Institutions		
Coalition Composition	-0.088	0.233
Cameral Index	1.23***	0.26
Effective no. of Parties	-0.356*	0.187
Disproportionality Index	-0.008	0.061

$r^2 = 0.466$

* $p < .01$ ** $p < .05$ *** $p < .01$

Note: $n = 40$

Source: *World Bank Development Indicators* (2006)

What is interesting in the above figure is the apparent negative correlation between the effective number of parties and the level of FDI. Little existing literature accounts for the proposed link between this institution and the influx of foreign capital. However I propose that there is a premise for this relationship which has as its foundations the link between national identity and the successful Asian development plan, deemed by Booth (1999) as integral to success of Taiwan and South Korea economic development⁵⁹. Indeed, the lack of ideological polarisation within Asian countries tends to lend itself towards strong leaders and/or populism. Many countries reject foreign capital as it is seen

⁵⁹ Booth (1999) suggests that one of the major factors to the economic success of both Taiwan and South Korea was their emphasis on domestic investment through gross domestic savings and not FDI.

(rightly or wrongly) a means of removing the ownership of national infrastructure from the people. These populist sentiments may be compounded in systems where there are large numbers of parties which are all effectively struggling for pork. When (relatively successful) economic development plans of neighbouring countries are seen to rely on gross *domestic* savings as an investment starter, opposition to FDI may become an enviable election platform (See Booth 1999). This trend is apparent within several of the South-East Asian countries, Philippines, Thailand and Indonesia [see below], particularly after the Asian Financial Crisis [1998]; however, no institutional literature has commented on the perceived relationship between the party-system and FDI levels.

Case Study: Indonesia

Indonesia is a prime example of the strong relationship between the cameral index and FDI. Indonesia had been, until the 2004 election, effectively a unicameral legislature operating under the multiparty party system. The 1999 election witnessed new systemic developments with the expansion of a larger party system within the unicameral legislature.

In general, the trend in Indonesia prior to 2004 was essentially a two-and-a-half party system (1987 electoral cycle) and a 2.9 party system for both the 1992 and 1997 electoral cycles. With the exception of the middle electoral cycle levels of FDI were generally decreasing. The 1999 electoral cycle saw an increased

number of parties (5.5) and a dramatic drop in FDI (-1.22), effectively suggesting that a larger number of parties within a unicameral legislature restricts the influx of foreign capital. In contrast, in the subsequent 2004 election there were implemented constitutional changes to the main legislature: four senators would now be elected per province (Sherlock 2006). However the powers of the two chambers are asymmetrical therefore, according to Lijphart's index, only warrant a score of three⁶⁰. The result of this medium-strong bicameral chamber, despite the presence of a large multi-party lower legislature (7.0), is a sizeable increase in the FDI level (1.3%). Although the previous electoral cycles have seen the increase of parties and the lowering of FDI, this last electoral cycle [2004-] however, reaffirms the theoretical points made above; a medium-strong bicameral chamber is significantly correlated to increase foreign capital.

Openness

Table 4.4 examines the relationship between bicameralism and the openness index. There is little existing literature as to the nature of this relationship. However, similar comments can be made as to the relationship between bicameralism and openness as were made about the links between this institution and FDI. Within all economies there are certain industries that are liable to be challenged by foreign competition. Indeed, some of these threatened

⁶⁰ This score refers to the index defined in Chapter Three, whereby a medium-strong bicameral institution, a classification that lacks either symmetry or incongruence, is categorised as a three. In this instance it has less than equal powers than the lower chamber, therefore it is deemed to be considered asymmetrical; whilst the election of four senators per province is incongruent because it over represents certain minorities.

industries may also be of great domestic importance (e.g. agriculture, manufacturing) and so carry undue influence with politicians. I have adopted Bradbury and Crain's premise (2002) that the very notion of specific interests gaining protection runs counter to the idea of a strong second chamber which should ostensibly only for the broader public interest. In most countries the broad public interest is for a more open market and consequently cheaper goods: once established it becomes difficult to change the status quo, even if the effect of liberalisation is harm to domestic primary production industries (Tsebelis and Money 1997).

Similarly, there is little literature explaining the correlation between the coalition institution and openness index. I propose that this relationship is a response to Crepaz's (1996) *encompassing interest*, in that the easiest way to satisfy and reward rent-seekers is to protect their interests by having a lower openness index, thereby protecting national industries, jobs and livelihoods. As shown below, Thailand provides a prime example of institutions, bicameralism and coalitions in context.

Table 4.4 Institutions and the Openness Index 1986-2005

	Unstandardised Coefficients	Standard Error
Institutions		
Coalition Composition	-15.409*	8.611
Cameral Index	26.806*	9.582
Effective no. of Parties	-10.093	6.892
Disproportionality Index	0.615	2.263

$r^2 = 0.35$

* $p < .01$ ** $p < .05$ *** $p < .01$

Note: $n = 40$

Source: *Penn World Table* (2004b)

Case Study: Thailand

The Thai senate is largely based on Westminster traditions. As noted above, some socioeconomic effects (including the openness index) can be in some way linked to the constitutional effects of changes to the senate. The 1997 constitutional change had significant effects for Thailand; therefore it provides a suitable context for which to compare the senate's strength before the 2000 election and after it⁶¹. In addition Thailand has had significant experience with coalition governments, the formation of which incidentally was also affected by

⁶¹ The constitutional changes only came into effect during the 2001 National Legislative Election.

the constitutional change; the effects of this can be clearly seen in Thaksin's new party TRT, which built an incredible majority in two subsequent elections.

Prior to the 1997 constitutional change, the indirectly elected senate had significant oversight powers, for instance they could reject or delay ordinary legislation and also vote on no-confidence motions (King 1999: 216). However I posit that the strength of the Thailand second chamber warranted a score of three of Lijpharts's cameral index. This score of three (3.0) is due to the senate exercising symmetrical power vis-à-vis the lower chamber however it classified as medium-strong due to it not having its members elected through incongruence. Overall the presence of an oversized cabinet in conjunction with the strong veto players in the senate could not restrict the level of openness in the tariffs.

The new constitutional senate, although now directly elected, is (ironically) slightly less powerful, and unable to pass no-confidence motions (King 1999: 216). This reduces the power of the senate over the House of Representatives, freeing up the latter to push through necessary legislation. The strength of the senate is now somewhat weaker than its counterpart legislature; therefore I posit that under the Lijphart scale, this upper chamber has a score of only two. The new constitutional amendment increased the democratic legitimacy of the senate but reduced its legislative power, therefore relegating to asymmetrical status; further the new nation-wide election of its members is a form of congruence and

therefore on the whole this is a weak chamber and warrants a score of only two. This phenomena coupled with a minimal-winning cabinet might be expected to give rise to policies which would reduce the openness index and prompt further protectionist laws.

Indeed, prior to the constitutional change taking effect in 1997, but effectively not until the 2001 legislative elections, each of the normalised electoral cycles increase by ten Openness Index points (Penn World Table 2004b). The difference in score between the 2004 and 2001 electoral cycles is negligible, suggesting that the effect of the new senate is significant. In conclusion, Thailand's political experience with two very different second chambers illustrated Table 4.4 results clearly; a medium-strong senate is correlated with a higher Openness Index. Conversely, the effect of this constitutional reform in regards to coalitions suggests that for the future, Thailand's is less likely to have more increase in the Openness Index.

GDP per capita

In Chapter Two I discussed the implication of adding new socio-economic indicators to examine the established relationships; I now go on to examine the four political institutions and GDP per capita. Although there was no specific literature that pertains to the significance this relationship, it stands to reason that the emerging success of these countries and indeed their increase in wealth is

due in some part to their political institutions. The existing literature suggests that institutions have varying effects on inflation, unemployment or income inequality. I suggest that it is likely that they can also affect the wealth of a country.

Table 4.5 Institutions and GDP per capita (Log) 1986-2005

	Unstandardised Coefficients	Standard Error
Institutions		
Coalition Composition	0.136**	0.05
Cameral Index	-0.075	0.056
Effective no. of Parties	-0.109**	0.04
Disproportionality Index	-0.006	0.013

$r^2 = 0.41$

* $p < .01$ ** $p < .05$ *** $p < .01$

Note: $n = 40$

Source: *Penn World Table* (2004b)

The economic performance analysis described in Table 4.5. exhibits two significant correlations. There is a significant *positive* correlation between coalition composition and GDP per capita; however, there is an equally strong *negative* correlation between the effective number of parties in the legislature and GDP. This suggests that the nature of the executive-legislative relationship is important in terms of economic outcomes. Illustrations of this relationship could

include circumstances in which a large number of legislative veto players are included in a government coalition, for example the oversized coalitions in Thailand⁶². I contend that the interplay between these institutions influences the growth of GDP per capita, that successful economic development is likely to occur through a coalition cabinet with a few parties in the legislature, or through a minimal-winning cabinet presiding over a two-party system.

The analysis shows a significant correlation between type of executive-legislative relations and a country's wealth. The argument about their effects lies at the heart of the majoritarian-consensus debate, wherein on one hand there is a minimal-winning executive presiding over a small legislature, and at the other pole, an oversized coalition and its large multiparty legislature. Both types permit a uniform economic policy, much in the way that a two-party legislature creates "catch-all" interest parties that have policies that try to accommodate all their interests, so does oversized coalitions, particularly in their efforts to mediate between all the cabinet veto-players for a single agreed-upon fiscal policy. In a way both types of system, despite their apparent differences, may create stable economic outcomes and as such can increase a country's wealth. But as the example below points out, a minority-led executive in a large multiparty legislature may face difficulties in attaining a high GDP per capita.

⁶² I have not included the alternative style of executive-legislative relations due to it overstating the effect. That in the instance of a two-party legislature it is more than likely that there will only be a minimal-winning cabinet and hence satisfy the logic of the balance needed between the legislative and the executive.

Case Study: Taiwan

Taiwan's democratisation is largely an examination of two halves, the first refers to the progression – between 1992 and 1999 – of the government from authoritarian towards democratic legitimacy; secondly, the election in 2000 of the first opposition president and the implementation of a French style semi-presidential or hybrid system. The difference between the two periods in terms of GDP per capita is a useful comparison.

The democratisation process proceeded relatively slowly in Taiwan insofar as full democracy was established later than other countries in this study. The 1992 elections were the first open and free elections for all constituencies (Hsieh 2002). Significantly, the winning party, the Kuomintang (KMT) headed the regime of the previous authoritarian government (Hsieh 2002). Huntington refers to the process as “transplacement”, in distinction to the widely conceived idea of “replacement” whereby “democratisation results from the opposition gaining strength and the government losing strength until the government collapses or is overthrown” (Huntington 1991: 142)⁶³. Although not directly influential in the forming of cabinet, the fewer effective number of legislative parties and its general electoral majority ensured Kuomintang was able to secure a minimal winning cabinet. The GDP per capita for this electoral cycle 1992-94 was \$13,549.82, the subsequent 1995 electoral cycle, which yielded a similar

⁶³ This is similar in the Korean case; their first democratically elected government post-authoritarian government was the same one of the previous regime.

electoral outcome, also saw an increase, \$15,993.02 (Penn World Table 2004b). The 1998 cycle had a similar jump, \$18,280.99, and also had a minimal winning cabinet with two and half party legislature (Penn World Table 2004b). The lack of veto-players in this majoritarian system was perhaps conducive to sustain economic development during the first three electoral cycles of democratisation. It would mean that policy could be created with little modifications and implemented swiftly due to few impediments.

The 2000 Taiwanese presidential election saw a win by an opposition leader, Democratic Progressive Party's (DPP) Chen Shui-bian, in conjunction with the implementation of new constitutional legislation for the first time and this caused deadlock for the 2001 electoral cycle (Hsieh 2002). Recent constitutional reform established a semi-presidential system for the 2000 election under the guidance of then KMT President Lee Teng-hui (Wu 2000). Whilst under Lee's administration the system ran smoothly, due his ability to dominate the premier by virtue of his party leadership of the legislative majority KMT. Problems arose when Chen assumed the presidency with a minority coalition in the legislative assembly (Lin 2003). The new reform essentially moved specific responsibilities away from the president to a premier – in the French system this is known as the Prime Minister – who in turn led the legislature. Chen's problems were due to the legislature retaining significant veto power and then further compounded by a majority coalition hostile to the executive meant policy deadlock was in place for the 2000 electoral cycle.

Although the Chen had won the presidency in 2000 the legislature was awarded to the KMT in 2001 and their coalition partners the People First Party (PFP) also known as the “pan-Blue army” (Hsieh 2002). Interestingly enough the election of a partisan premier loyal to the DPP early after the 2001 election did not prompt a response from the pan-blue camp⁶⁴. The effect was still significant, a minority cabinet in a three-and-a-half party system contributed to only a GDP per capita value of \$ 19335.69, a markedly lower jump than the previous electoral cycles. The unwillingness of the president to elect an opposition party member to the premiership, and therefore another collective veto-player, may be correlated to the country’s small wealth increase.

The subsequent 2004 legislative elections also saw an pan-blue majority ,albeit a small one, fail to place one of their own as premier (Hsieh 2006). The DPP ,a minority in the Legislative Yuan, formed a second minority cabinet (Hsieh 2006). The minority cabinet and another multiparty legislature (3.5) prompted a GDP per capita score of only \$ 20239.93. Indeed, a second consecutive cohabitation electoral cycle reaffirmed Table 4.5 correlations, that a minority executive and a large multi-party legislature is unlikely to be wealth-maximising. What is suggests is that this government structure does not permit coalition building that is present

⁶⁴ The president can hand-pick their premiers, unusual for a semi-presidential system, generally this office is bestowed to the leader of the legislative majority. In this instance it is assumed that picking anyone other than this person reduces your power to implement policy. Moreover, it would prompt hostilities from the legislative majority, however, the pan-Blue army did not, fearing that a no-confidence vote against the executive on their behalf may prompt a fresh election and the possibility of a reduced majority (Hsieh 2006).

in purely parliamentary institutions, for instance Japan and Thailand. At the risk of creating a fairer and more democratic legitimacy Taiwan has possibly hamstrung economic development through political immobility. The inability of the president to create a cabinet coalition with any of the parties in the legislature is may adversely affect better GDP scores in future electoral cycles

In sum the effects of minority government in a large legislature lends itself to uncertain policy that may result in smaller GDP per capita increase each electoral cycle. Taiwan is therefore a prime example of the interplays between multiparty legislature and the executive. The first several electoral cycles imitate the correlation perfectly; a minimal-winning cabinet and fewer parties resulted in significant jumps in GDP per capita due to greater efficiency in implementation. In contrast, the establishment of a “cohabitation” government, indeed, a minority-led executive facing a hostile and larger multiparty legislature, had significant negative effects for GDP per capita.

Human Development Index

This indicator is a composite index, made up of three different measurements, firstly, a long and healthy life, as measured by life expectancy at birth; secondly, knowledge, as measured by the adult literacy rate and the combined gross enrolment ratio for primary, secondary and tertiary schools; lastly, a decent standard of living, as measured by gross domestic product (GDP) per capita in

purchasing power parity (PPP) US dollars (UNDP 2006). Chapter Two hypothesised broadly that electoral systems are influential in affecting the quality of life (Crepaz 1996). Currently, there is very little literature that directly confronts the issue of whether specific democratic institutions have correlations with this socioeconomic indicator. I contend that democratic institutions do have an indirect effect on the Human Development Index; however, the effect is potentially overshadowed by how much wealth each country enjoys, therefore skewing the results the richer countries.

Table 4.6 Institutions and Human Development Index 1986-2005

	Unstandardised Coefficients	Standard Error
Institutions		
Coalition Composition	0.045**	0.019
Cameral Index	-0.02	0.019
Effective no. of Parties	-0.023**	0.01
Disproportionality Index	0.003	0.004

$r^2 = 0.178$

* $p < .01$ ** $p < .05$ *** $p < .01$

Note: $n=32$; this sample lacks scores from Taiwan

Source: *United Nations Development Project* (2006); *Key Indicators of Developing Asian and Pacific Countries* (ADB: 2000;2002;2003;2004)

Table 4.6 shows that HDI scores are strongly correlated with cabinet composition. This is in part perhaps due to the increased number of interests represented in the executive; Crepaz (1996) referred to such cabinets as “encompassing organisations” which acted and made decisions based on the expectation of their wider general interest. Therefore it is likely that coalition governments within East and South-East Asia would be expected to have spent larger sums of their budgets on improving health and education attainment levels on their populaces. However, a more likely reason than the direct effects of education and health funding is the increasing wealth of the country leading to better HDI scores. As a matter of common sense, the larger the GDP per capita of the country then the better the HDI score. Appendix I shows the regression of all seven countries GDP scores with the rest of the independent variables. The inclusion of this additional indicator suggests that the wealthier the country the more likely it is to have a higher HDI index, significant to the 0.01 percentile. Interestingly, this regression suggests that there is a negative influence of the disproportionality index significant to the 0.05 percentile. That in electorates where there are disproportionate differences between the number of seats appropriated by a party and their respective number of votes could adversely affect their HDI index. GDP variation alone may in fact account for most of the variation of the HDI results, however, even in developed democracies; there is a considerable difference in the HDI levels. Indeed, the top three rankings – Iceland, Norway and Australia – of the United Nations Development Programme HDI rankings are occupied by coalition governments, two of which have GDP per

capita scores significantly less than that of the richest country the United States of America (UNDP 2006). I think that a country's wealth is strong contributing factor to its quality of life/HDI score as seen in Appendix I however this should not discount the influence of the coalition institution. I contend further, that between developing economies, particularly South-East Asian countries, the variation between these may be related back to their cabinet composition rather than their wealth.

Case Study: Japan, South Korea and Thailand

All three countries have recent experience of both minimal winning and oversized coalition cabinets and also have enjoyed increased wealth and consequently better HDI scores⁶⁵. The increases in the scores are more noticeable during or immediately after a coalition led cabinet⁶⁶. What is noticeable, however, is the effect that this type of institution has had on the only developed democracy in the sample, Japan. After several decades of an unchanging minimal-winning cabinet, the Liberal Democratic Party (LDP), Japan has had several electoral cycles of oversized coalitions (Klein 2001). Starting, from 1993, their first oversized coalition, there have been five cycles of sizeable increases in the HDI scores

⁶⁵ This indicator is calculated as a fraction and therefore the incremental jumps between electoral cycles, although small numbers, in fact represent large differences. For instance a 0.05 jump in HDI over several years can mean a substantial increase in standard of living or the increase of life expectancy, or the increase of education enrolments. Therefore, it is unlikely that will be a huge increase from one year to the next, even over several years, hence it is significant if there are changes of 0.05 as opposed to 0.03.

⁶⁶ In this instance I still refer to minority cabinets as a form of coalition cabinet.

compared to several modest increases in the cycles prior to the removal of LDP from government (UNDP 2006).

The developing democracies have experienced remarkable development. Thailand in particular is a clear example of oversized coalitions and excellent economic performance with large increases in HDI scores. Prior to the 1998 Asian Financial Crisis Thailand had several electoral cycles of oversized coalition cabinets, and in each cycle there was good human development with an average increase of 0.052 HDI points (ADB 2000; ADB 2001; ADB 2002; ADB 2003b; ADB 2004; ADB 2005; UNDP 2006). Post-crisis , irrespective of the reduced economic development, HDI levels remain largely unaffected and are still increasing at an average 0.09 points per cycle (ADB 2000; ADB 2001; ADB 2002; ADB 2003b; ADB 2004; ADB 2005; UNDP 2006). This is in stark contrast to the Indonesian and Filipino minimal-winning cabinets whose unremarkable but steady development pre-crisis was largely non-existent post-crisis. Indeed, recent Thai HDI scores are comparatively lower in relation to earlier electoral cycles, and I contend this may in part be due to the electoral dominance of Thaksin's TRT party.

The last example, South Korea, has had superior economic development coupled with a fluid political development. During the first three electoral cycles of their democratisation, this country had had all three forms of coalition cabinets successively – the 1988-91 cycle was an oversized cabinet; the 1992-95 cycle

was a minimal-winning, and; the 1996-99 cycle was a minority coalition. In this time its HDI score jumped 0.057 points; the remaining two electoral cycles has seen minority cabinets and an increase of 0.03 HDI points (ADB 2000; ADB 2001; ADB 2002; ADB 2003b; ADB 2004; ADB 2005; UNDP 2006).

Income Inequality

There is a strong positive correlation between cameral index and the two income inequality measures⁶⁷. The results shown in tables 4.7 and 4.8 below corroborate Crepaz and Birchfield's (1998) findings in respect to bicameralism. Whereas other forms of consensus democracy (i.e. multi-party legislatures and oversized coalitions) appeared to generate income equality, the effects of bicameralism seemed to further inequality. This illustrates the argument by Bradbury and Crain (2002) which I described in Chapter Two; competitive veto players in a second chamber are less likely to change economic policy for the purpose of wealth redistribution with an intention to favour a particular group⁶⁸. In the same vein, Tsebelis and Money (1997) suggest that even where there is a strong majority in the lower legislature, it can do little to alter the policy status quo if the second chamber decides that it is not the best interests of the general electorate to do so. This probably accounts for the very significant positive correlation between the strength of bicameralism and the level of income inequality. However, this does not account for the policies that a strong second chamber does allow;

⁶⁷ The two income measures refer to the top decile percentages and CIA Gini scores respectively. The measures are discussed more thoroughly in Chapter Three.

⁶⁸ This can also be termed as rent-seeking behaviour.

presumably if applying the logic stated before, this institution may perceive that some legislation does benefit the general electorate and as unintended consequence reduces income inequality. Hence in some case studies income inequality does reduce between electoral cycles.

Table 4.7 Institutions and Top Decile's Share of Gross National Income 1986-2005 (%)

	Unstandardised Coefficients	Standard Error
Institutions		
Coalition Composition	-0.269	0.865
Cameral Index	6.847***	0.876
Effective no. of Parties	0.802	0.59
Disproportionality Index	0.047	0.223

$r^2 = 0.87$

* $p < .01$ ** $p < .05$ *** $p < .01$

Note: $n = 22$

Source: *World Income Inequality Database* (WIDER 2007)

Table 4.8 Institutions and Gini Coefficients 1986-2005

	Unstandardised Coefficients	Standard Error
Institutions		
Coalition Composition	-0.398	1.955
Cameral Index	4.193***	1.287
Effective no. of Parties	-0.879	1.444
Disproportionality Index	-0.118	0.44

$r^2 = 0.444$

* $p < .01$ ** $p < .05$ *** $p < .01$

Note: $n = 22$

Source: Central Intelligence World Factbook (1999; 2000; 2001; 2002; 2003; 2004; 2007)

Tables 4.7 and 4.8 both attempt to crudely demonstrate the same concept, namely, income inequality. This indicator is commonly described using two tests, the first (shown in Table 4.7) share held by the top ten percent of the population of the Gross National Income; the second indicator (Table 4.8) is the Gini Coefficient score. This is best described as a Lorenz Curve, whereby the inequality is measured as an index score calculated using all of the population. The fact that both measures yield highly significant results confirms that the presence of a bicameral institution is pertinent for levels of income inequality.

Tables 4.7 and 4.8 show that neither coalition nor party system institutions have an effect on the level of income inequality within the sample. This is perhaps surprising considering the emphasis placed upon these institutions by Birchfield and Crepaz (1998). Although in many of the countries there is higher quality of life, much of this is to do with sustained economic development rather than government type. However, a theme that pervades many emerging Asian democracies is the lack of strong social links or collaborations between grassroots groups and electoral parties. Because of the absence of left wing or socialist parties (which would ordinarily campaign for income equality and redistributive policies) the whole political system is in consensus about the desirability of sustained economic development. This may therefore be a situational example of emerging Asian democracies not illustrating the same characteristics of their developed OECD counterparts. If this is the case then Birchfield and Crepaz's (1998) hypothesised effects for coalition and multi-party systems for lowering income inequality within OECD countries cannot be held over for these developing democracies.

Case Study: Philippines

The Philippines is a prime example of a medium-strong bicameral institution affecting the income dispersion in an economy. Although the data for both its

decile scores and the CIA Gini coefficients are incomplete, their both reflect a general trend of high levels of inequality.

According to Lijphart's cameral index, the Philippines' senate receives a score of three; this is due to its symmetrical powers but also congruent election of its senators (Croissant 2003). I contend that this medium-strong institution is responsible for restricting the redistribution of income to the lower socio-economic groups. Thus, it is unlikely that policies in regards to the social welfare of citizens passed by the lower house are affirmed by the senate.

One explanation for this is the large number of poor and disenfranchised persons living outside the main urban areas. The major stumbling block to development for many of these people is the unwillingness by the political elite, mainly the proportionally-elected senate, to initiate land reform (Gerson 1998; Guzman 2007). Senate campaigns are expensive, hence, much of the upper house members are in some way linked to the urban population and rich land owners who benefit from the current lack of land reform, because these are the persons who can afford to run (or sponsor) senators (Gerson 1998; Guzman 2007). Indeed, many reports about the Philippines list this country as having the worst levels of income inequality in South-East Asia (Gerson 1998; Guzman 2007). This historical data seems to affirm the correlations of Table 4.7 and 4.8; from 1992-94 electoral cycle to the 1998-2000 cycle their Gini Coefficient score

jumped from 33.5 to 39.3 (CIA 1999; CIA 2003)⁶⁹. This increase of inequality was largely based in the Philippines rural districts whilst amid the growing calls for greater land reform to raise people out of poverty (Guzman 2007). Although bicameral institutions are strongly correlated with the two indicators of income inequality, Tables 4.7 and 4.8; and the historical situation lends itself towards confirming this correlation, it is simplistic to suggest that other economic forces have not affected this situation. MacIntyre (2001) considered the Filipino government ill-equipped to deal with the 1998 Asian Financial Crisis. It was emphasised that the country's hesitation over the correct legislation delayed important economic policy being implemented and as a result a serious economic downturn was experienced in the Philippines (MacIntyre 2001). Indeed, this crisis no doubt created further hardship and therefore larger inequality, but it also makes it harder to determine whether Table 4.7 and 4.8 correlations adequately explain the relationship.

Summary

This thesis is an exploratory study into the effects of democratic institutions on economic development in nascent democracies. The results outlined in this chapter provide a crude assessment of the viability of four institutions in relation to seven socio-economic indicators. Indeed, despite limited number of cases and

⁶⁹ Gini Coefficients are a statistical tool to analyse the proportion of Gross National Income the wealthy citizens enjoy over the poorer ones. In short, a lower coefficient score, for instance Taiwan's 24, suggests there is very little income inequality present. Moreover within the developed countries Japan, Taiwan and South Korea, their scores fluctuate up to 1.0 over any three electoral cycles. Therefore in this instance a jump of 5.8 coefficients, from an already inequitable position represents a significant change.

control variables, the results point to interesting relationships between various political institutions and economic preferences. More importantly, this analysis suggests that further in-depth and systematic study and research is required in order to provide greater understanding of the role democratic political institutions have on economic performance.

However, several conclusions can be made from the results. This analysis has provided some interesting relationships (and omissions) that warrant comment. In general the hypotheses regarding inflation and unemployment hold true in new Asian democracies. Consensus institutions, specifically minority and oversized coalition cabinets, are significantly correlated with the reduction of inflation and unemployment. Further, the hypothesised relationship between medium-strong bicameral institutions and higher income inequality was also shown to be highly significant in my sample. There were also several expected relationships which did not appear in the data. Notably, bicameralism was considered to be relevant to lower rates of inflation; however Table 4.1 shows that there was no significant relationship between these variables. Consensus institutions were expected to reduce income inequality; however, neither cabinet composition nor party systems had significance for that indicator.

The inclusion of several other socio-economic indicators not previously investigated has produced some interesting results. Foremost of these new relationships is that between bicameral institutions and FDI, and to a lesser

extent the openness index. Both these indicators represent two factors integral to the unique and successful economic development of these Asian democracies (Booth 1999). I contend that the highly significant correlation between bicameralism and FDI is descriptive of the political differences between the relatively successful economic East Asian democracies and their South-East counterparts⁷⁰. Further research could possibly shed light on the specific role this institution has in shaping economic development.

Coalition cabinets provide the other interesting new relationship; minority cabinets and oversized coalition cabinets appear to be significantly correlated with HDI. I contend that although this socio-economic indicator is probably highly influenced by the wealth of the country, GDP per capita, there are discernable differences in those whom had minimal-winning cabinets compared to other two forms.

⁷⁰ In this instance, South Korea, Taiwan and Japan

Chapter Five – Conclusion

This thesis has conducted an exploratory study into the effect of democratic political institutions on economic performance. Chapter Two evaluated major scholarly work, conducted principally by Lijphart and other neo-institutionalist theorists, on the implications of specific democratic institutions. This research has advanced the existing literature, most of which is premised on industrialised developed democracies, by considering whether the theories hold true when applied to nascent democracies of East and South-East Asia.

Research Findings

Chapter Two outlined several of the main hypotheses derived from study of industrialised democracies. To these hypotheses and their associated socio-economic data I added several other performance indicators. These included general indicators of economic and social development, and also some factors which are related to unique features of Asia's growth, such as low levels of FDI. . The hypothesised relationships between political institutions and performance indicators generally held true, however there were some interesting exceptions and several new correlations were revealed.

Lijphart (1999) contended that states with consensus institutions, proportional electoral systems, multiparty legislatures, coalition executives and strong

bicameral institutions have equal or in some instances better economic performance than their majoritarian counterparts. Further, Birchfield and Crepaz (1998) argued that both multiparty legislature and coalition executives reduce inflation, unemployment and income inequality whilst maintaining a higher standard of democracy.

Most of the hypotheses concerning consensus style governance hold true in the South-East Asian sample used in this thesis. However, some inconsistencies are apparent. The most noticeable of these is the aggregate effect of multiparty legislatures. Both inflation and unemployment performance indicators illustrated the counterbalancing effect resulting from a large multiparty system, particularly in regards to an oversized coalition executive, in many instances the former institution has had correlations running directly opposite to the latter institution. This suggests that although compromise amongst veto players within an executive can have the desired effect on the particular institution e.g. a coalition cabinet reducing inflation levels, high level of party fragmentation within Asian democracies is inherently disadvantageous for specific economic performances such as inflation. It has even been suggested that too much democracy in the sense that consensus style creates further legitimacy through compromise is perhaps a disincentive for economic development (Barro 1997).

Although Lijphart classified bicameralism as a form of consensus institution, it is a different type vis-à-vis multiparty legislatures and coalition executives due to

types of veto players operating within it. Chapter Two explained that the former institution is made up of competitive veto players intent on maintaining the status quo, while coalition executives are collective veto players and usually able to reach compromise. True to form, this hypothesised outcome was indicated in the data; medium-strong bicameralism was correlated with high levels of income inequality. I contended that this was due to the inability of lower chambers to push rent-seeking legislation through the upper chamber, often due to its different electoral and power structure. But the glaring omission in this area was the absence of the expected correlation between any of the other three collective institutions – party system, coalitions and electoral systems – and income inequality. Birchfield and Crepaz (1998) stated that the role of these institutions was essential to the income equality, however it is clear that this is not significant for Asian developing democracies.

The new relationships between strong bicameral systems and economic indicators (both FDI and openness) also warrant comment. There was a significant positive relationship between both these variables and this institution. These indicators describe key elements in the successful economic development of Asian countries. Booth (1999) stipulates that low levels of FDI into both South Korea and Taiwan encourage high domestic saving which in turn spurred investors to use local capital as opposed to foreign sources. South-East Asian countries have to a certain extent followed a similar developmental path. I contend that medium-strong bicameral governments indirectly affect investment

availability, favouring more-easily-accessed foreign capital rather than (as in the Filipino government) prejudicing against FDI because of nationalistic sentiments. Further, the openness index examines the extent of tariffs restricting the amount of imports, a policy that favours specific industries; as for wealth distribution and FDI, this bicameral institution in its strong form does away with industry protection making all goods accessible for the consumer.

Surprisingly there was no significant relationship between electoral systems and socio-economic performance. The current literature heavily emphasises the role of this institution in affecting socioeconomic performance. This may well be true. I suggest that the absence of a correlation is in fact due to the lack of variation amongst my sample. For statistical correlations to gain any significance there needs to be differences amongst each independent variable. In my sample proportional representation was almost the sole electoral type. Therefore, as a consequence of there being no valid comparators, there seems to be no significant relationship.

Research Limitations

There is very little literature existing that surveys the same scope or theoretical understanding that this research attempts. Indeed, the nature of the research attempted to implement a framework uplifted from surveys of developed

industrialised democracies and not specifically for nascent developing Asian democracies.

Foremost within this research is the utility of the statistical analysis as a means to illustrate the relationships between our institutions and socio-economic performance. Due to the limited nature of the variables – the small number of countries, the limited years of democratic elections and a lack of control variables – conclusions drawn from this analysis must be made with an awareness of its parameters⁷¹. What is important is the significance of the direction derived from the correlations. Repeating what was stated in the previous chapter's conclusion, this exploratory thesis purports to examine new relationships within the Asian context. Irrespective of this research's reduced capacity to predict with confidence the size and direction of the relationship it allows some important general conclusions. Foremost, is the viability of these institutions in other similar analyses, meaning, that if significant relationships are found the relationship will still hold when tested with addition institutional variables, cases and controls. Conversely, in the first instance where no significant relationship is derived, the likelihood of a further specific in-depth analysis ascertaining any correlation is not probable.

⁷¹ I contend here that there are a number of control variables that could be used to explain away inconsistencies. For instance the influence of colonialism, American, European and Japanese; other control variables include the ethnic homogeneity and proximity of countries to the tropics.

Possible Avenues for Further Research

There is significant potential for further research in this field. Very little similar research has been conducted using these countries and this analytical framework.

Foremost among potential research topics is a closer examination of bicameralism and its effects on socio-economic performance. The current literature does not adequately address the significance of this institution in developing democracies. This thesis has hinted at the significant effect it may have on socio-economic indicators; further evaluation in relation to its relationships with other indicators in my opinion merits extensive review.

Secondly, there is room to synthesise the quantitative work in this thesis with alternative analytical frameworks for institutions, in particular work that examines the *quality* of institutions. Olson (1996) suggests much of the potential growth that can be accrued is lost through inefficient institutions. While my work has focussed on the characteristics of institutions, Olson and others seek to assess implementation and efficacy institutions. The corollary of this is that although characteristics may indicate the presence or absence of certain factors, they do nothing to describe performance (Aron 2000). Research into a direct relationship between institutions and growth has found that there is little significance, however Aron points out that there is a case for indirect correlation measured by

effect of institutional *quality* on the volume of investment. This would warrant further examination under a rubric which encompasses both characteristics and qualities of institutions.

Final Thoughts

Lijphart and other neo-institutionalists have long promoted the economic viability of democratic systems in developed and industrialised countries, however little has been made of the import of democracy for developing nations. This thesis has sought to examine and evaluate established hypotheses in a variety of similar countries, the majority of which are considered to be part of the “Third Wave” of democratisation (Huntington 1991). I also attempted to introduce new socio-economic indicators to explore other potential relationships; the result being some new and interesting relationships as well as some surprisingly strong hypothesised ones as well. Whilst this thesis has not attempted to definitively ascertain which institutions contribute to specific economic performance, it has prompted new directions for future research particularly into the rise of democratic institutions in East and South-East Asia.

Appendix I

Appendix I Institutions and HDI and additional GDP per capita

	Unstandardised Coefficients	Standard Error
Institutions		
Coalition Composition	(-)0.011	0.012
Cameral Index	0.007	0.014
Effective no. of Parties	(-)0.009	0.007
Disproportionality Index	(-)0.005**	0.003
GDP per Capita	0.264***	0.039

$r^2 = 0.647$

* $p < .01$ ** $p < .05$ *** $p < .01$

Note: $n = 32$

Source: *United Nations Development Project* (2006); *Key Indicators of Developing Asian and Pacific Countries* (ADB: 2000;2002;2003;2004)

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